

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2022 and 2021

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VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

The Audit Committee of the Board of Directors
Virginia Bankers Association and Subsidiaries
Richmond, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Virginia Bankers Association and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Bankers Association and Subsidiaries as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Virginia Bankers Association and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Virginia Bankers Association and Subsidiaries ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, Continued

considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Virginia Bankers Association and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Virginia Bankers Association and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 2022 and 2021 consolidated financial statements as a whole. The 2022 and 2021 consolidating and other supplemental information on pages 31-39 are presented for purposes of additional analysis and are not a required part of the 2022 and 2021 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2022 and 2021 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the 2022 and 2021 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2022 and 2021 consolidated financial statements or to the 2022 and 2021 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the 2022 and 2021 information is fairly stated in all material respects in relation to the 2022 and 2021 consolidated financial statements as a whole.

Keiter

June 8, 2023
Glen Allen, Virginia

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2022 and 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,206,750	\$ 3,070,028
Investments	5,417,696	5,198,465
Accrued interest receivable	3,958	2,676
Accounts receivable	515,183	545,215
Accrued pension asset	142,595	27,717
Prepaid expenses	140,566	129,920
Property and equipment, net	2,322,115	2,415,684
Retirement benefits	1,108,852	1,309,741
Cash surrender value of life insurance	<u>135,241</u>	<u>129,775</u>
Total assets	<u>\$ 13,992,956</u>	<u>\$ 12,829,221</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 330,814	\$ 342,569
Income taxes payable	254,399	35,960
Deferred revenue	722,698	634,260
Accrued postretirement health care benefits	130,951	156,587
Retirement liability	1,108,852	1,309,741
Deferred income taxes, net	<u>73,205</u>	<u>219,394</u>
Total liabilities	<u>2,620,919</u>	<u>2,698,511</u>
Net assets - without donor restrictions	<u>11,372,037</u>	<u>10,130,710</u>
Total liabilities and net assets	<u>\$ 13,992,956</u>	<u>\$ 12,829,221</u>

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
Revenue:		
Health and welfare administrative fees	\$ 1,798,712	\$ 2,019,902
Investment income, net	1,787,592	621,702
Education and conference revenue	1,671,179	1,560,771
Membership dues	1,168,054	1,125,018
Defined benefit and contribution administrative fees	762,918	834,419
Management fees	744,616	898,830
Product and endorsement income	470,309	467,025
Lease income	273,783	255,860
Nonqualified plan fees	218,592	140,924
Insurance commissions	46,444	41,129
Other revenue	20,832	25,804
Revenue sharing income	-	72,889
Total revenue	8,963,031	8,064,273
Operating expenses:		
Salaries and benefits	3,753,178	3,584,866
Education and conferences	893,188	784,656
Consulting	728,519	752,045
Professional fees	313,914	433,060
Benefits administration	305,779	323,518
Occupancy	240,603	170,985
Depreciation	235,071	235,302
Office expenses	234,545	209,456
Other operating expenses	205,531	39,886
Travel and education	112,688	58,547
Insurance	50,408	48,014
Meetings	47,522	5,031
Publications and products	10,321	8,947
Marketing	3,517	4,031
Income tax expense	380,072	363,874
Total operating expenses	7,514,856	7,022,218
Change in net assets - without donor restrictions before pension-related changes	1,448,175	1,042,055

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statements of Activities, Continued
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Change in net assets - without donor restrictions before pension-related changes	\$ 1,448,175	\$ 1,042,055
Pension-related changes other than net periodic pension cost and postretirement benefits	(227,593)	275,564
Postretirement changes	<u>20,745</u>	<u>2,699</u>
Change in net assets - without donor restrictions	1,241,327	1,320,318
Net assets - without donor restrictions, beginning of year	<u>10,130,710</u>	<u>8,810,392</u>
Net assets - without donor restrictions, end of year	<u>\$ 11,372,037</u>	<u>\$ 10,130,710</u>

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			Support Services	Total Expenses
	Advocacy and Communication	Employee Benefits	Products and Services	Administrative	
Salaries and benefits	\$ 558,856	\$ 1,255,835	\$ 1,471,575	\$ 466,912	\$ 3,753,178
Education and conferences	-	-	893,188	-	893,188
Consulting	23,109	682,315	22,507	588	728,519
Professional fees	58,681	212,972	41,904	357	313,914
Benefits administration	-	305,779	-	-	305,779
Occupancy	36,376	70,856	115,012	18,359	240,603
Depreciation	60,199	60,161	101,241	13,470	235,071
Office expenses	71,524	65,999	96,160	862	234,545
Other operating expenses	8,135	6,058	190,422	916	205,531
Travel and education	35,230	41,534	35,924	-	112,688
Insurance	12,461	21,698	15,987	262	50,408
Meetings	32,790	4,663	10,069	-	47,522
Publications and products	-	-	10,321	-	10,321
Marketing	-	3,517	-	-	3,517
Income tax (benefit) expense	-	(104,394)	484,466	-	380,072
Total expenses	\$ 897,361	\$ 2,626,993	\$ 3,488,776	\$ 501,726	\$ 7,514,856

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

	Program Services			Support Services	Total Expenses
	Advocacy and Communication	Employee Benefits	Products and Services	Administrative	
Salaries and benefits	\$ 714,475	\$ 1,180,321	\$ 1,212,263	\$ 477,807	\$ 3,584,866
Education and conferences	-	-	784,656	-	784,656
Consulting	17,446	705,830	28,103	666	752,045
Professional fees	124,202	289,379	19,108	371	433,060
Benefits administration	-	323,518	-	-	323,518
Depreciation	54,355	66,844	100,545	13,558	235,302
Office expenses	63,958	56,463	88,728	307	209,456
Occupancy	25,946	49,828	81,643	13,568	170,985
Travel and education	18,996	21,021	18,530	-	58,547
Insurance	11,963	20,566	15,226	259	48,014
Other operating expenses	7,829	10,436	20,534	1,087	39,886
Publications and products	-	-	8,947	-	8,947
Meetings	3,946	270	815	-	5,031
Marketing	-	4,000	31	-	4,031
Income tax expense	-	117,345	246,529	-	363,874
Total expenses	\$ 1,043,116	\$ 2,845,821	\$ 2,625,658	\$ 507,623	\$ 7,022,218

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 1,241,327	\$ 1,320,318
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	235,071	235,302
Net depreciation (appreciation) in the fair value of investments	785,720	(332,032)
Deferred income taxes, net	(146,189)	116,895
Gain on disposal of property and equipment	(18,862)	(21,986)
Realized gain on sale of investments	(2,436,223)	(35,417)
Changes in operating assets and liabilities:		
Receivables	28,750	(50,063)
Prepaid expenses	(10,646)	(10,211)
Retirement benefits	200,889	(267,323)
Income taxes receivable and payable	218,439	(60,582)
Accounts payable and accrued expenses	(11,755)	52,119
Deferred revenue	88,438	(90,256)
Accrued pension expense	(114,878)	(431,384)
Accrued postretirement health care benefits	(25,636)	(7,632)
Retirement liability	(200,889)	267,323
Net cash (used in) provided by operating activities	(166,444)	685,071
Cash flows from investing activities:		
Purchase of property and equipment	(147,640)	(205,430)
Proceeds from sale of property and equipment	25,000	22,000
Payment of life insurance premium	(5,466)	(5,466)
Purchase of investments	(2,057,914)	(2,397,783)
Proceeds from matured investments	1,064,030	1,932,449
Proceeds from the sale of investments	2,425,156	127,217
Net cash provided by (used in) investing activities	1,303,166	(527,013)
Net change in cash and cash equivalents	1,136,722	158,058
Cash and cash equivalents, beginning of year	3,070,028	2,911,970
Cash and cash equivalents, end of year	\$ 4,206,750	\$ 3,070,028
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 245,002	\$ 315,629

See accompanying notes to consolidated financial statements.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Description of Business:

Virginia Bankers Association (“VBA”), founded in 1893, is a not-for-profit Virginia nonstock corporation representing commercial and savings banks in the Commonwealth of Virginia. The primary mission of VBA includes supporting the federal and state legislative processes as they relate to banks and savings institutions, providing member education and training, and generally supporting any member need or common issue that can best be accomplished by a central organization. Other banking support is provided through two wholly owned for-profit subsidiaries, VBA Benefits Corporation (“Benefits Corporation”) and VBA Management Services, Inc. (“Management Services”).

Benefits Corporation, founded in 1992, is incorporated in the Commonwealth of Virginia. It administers the Virginia Bankers Association Group Medical and Dental Trust, the State Bankers Association Group Insurance Trust, the Trust Fund of State Bankers Association Master Defined Benefit Pension Plan and Trust, and the Trust Fund of State Bankers Association Master Defined Contribution Plan and Trust (“Affiliated Trusts”) for participating members of VBA. Accordingly, Benefits Corporation receives revenue sharing income and fees for these administrative services (included in health and welfare administrative fees and defined benefit and contribution administrative fees in the accompanying Consolidated Statements of Activities) and pays certain operating expenses of these Affiliated Trusts. The Benefits Corporation also operates as an agent for various types of nonqualified plans. Benefits Corporation offers these plans to commercial banks, savings institutions, and associate members, who in turn provide coverage to their employees.

Management Services, founded in 1993, is incorporated in the Commonwealth of Virginia and its primary mission is to introduce products and services to members of VBA that provide new income opportunities, offer cost savings, help banks stay in regulatory compliance and help train bank employees. To accomplish this mission, Management Services provides education and training and product endorsements to VBA member banks. Management Services has been contracted by the owners of certain companies to manage the business affairs of these companies.

VBA Properties, LLC (“Properties”) is a Virginia limited liability company created in 2004. Properties is equally owned by VBA, Benefits Corporation and Management Services. The primary purpose of Properties is to hold and manage the assets and liabilities of the Association's headquarters building.

VBA and subsidiaries are collectively referred to herein as the “Association”.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies:

Basis of Accounting: The Association prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States, which include using the accrual basis of accounting.

Consolidation: The consolidated financial statements include the accounts of VBA and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. Net assets are reported as without donor restrictions since they are available at the discretion of the Board of Directors for use in the Association's operations.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Association considers all highly liquid investment instruments with an original maturity at purchase of three months or less to be cash equivalents.

Investments: Investments include certificates of deposit, mutual funds, equity securities, and common stock. These investments are measured at fair value based on the most recent trade price with gains and losses included in the accompanying Consolidated Statements of Activities.

The Association also had investments in common stock of four privately-held entities in the banking industry, three of which were valued at the lower of cost or market at December 31, 2021. At December 31, 2021, the Association's investment in Infinex Investments, Inc., Compliance Alliance, Alliance of Bankers Association and Canapi Investments, Inc. was \$66,400. During 2022, the Association sold their investment in Infinex Investments, Inc. and impaired their investment in the Alliance of Bankers Association to zero with the related gain of \$2,482,395 and loss of \$500 reported in investment income, net, in the accompanying Consolidated Statements of Activities. At December 31, 2022, the Association's investment in Compliance Alliance was \$15,900. The investment in Canapi is reported at fair value at December 31, 2022 and 2021 based on information the Association obtained from the investment manager. Annually, management evaluates these investments for potential impairment based on the financial results of the privately-held entities. As the Compliance Alliance investment is held at cost, it is excluded from the fair value hierarchy at Note 6.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Accounts Receivable: The Association closely monitors outstanding accounts receivables and identifies bad debts based on the collectability of the receivable and management's judgment. The Association uses the reserve method of accounting for bad debts. There was no reserve for uncollectible receivables as of December 31, 2022 or 2021.

Property and Equipment: Property and equipment are stated at cost. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, generally three to ten years for furniture, fixtures and vehicles and thirty years for building and improvements. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Valuation of Long-lived Assets: The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of assets exceeds the estimated value of the assets. There were no impairment losses in 2022 and 2021. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Net Assets: The consolidated financial statements report amounts separately by class of net assets as follows:

Net assets without donor restriction are those available for use at the discretion of the Board of Directors for use in the Association's operations and those resources invested in property and equipment. All net assets without donor restrictions are undesignated as of December 31, 2022 and 2021. There are no board designated net assets.

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include donor-imposed stipulations for specific operating purposes or for the acquisition of property or equipment. When a donor restriction expires, temporarily restricted net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that they be maintained permanently by the Association to use all or part of the income earned on any related investments for general or specific purposes, in accordance with the conditions of each specific donation. The Association had no net assets with donor restrictions at December 31, 2022 and 2021.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Revenue Recognition: Revenue is generated through membership dues, management services, health and welfare administrative fees, retirement plan fees, lease income, insurance commissions, and educational training seminars sponsored by the Association. Dues revenue is recorded as earned on a pro rata basis over the Association's fiscal year.

The Association follows FASB guidance Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 affects any entity that enters into contracts with customers to transfer goods or services. The standard's core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services.

The Association recognizes the majority of its revenue, other than educational and conferences, over time. Economic factors may impact the nature, amount, and timing of revenue recognition.

Dues: The Association provides services for its members in the forms of communication, member relations, and government relations. Fees associated with these services are billed as part of membership dues each year. The performance obligation for providing these services is satisfied over time (the calendar year) because the members are continually receiving and consuming the benefits as they are provided by the Association each month. Therefore, revenue related to dues is recognized during the calendar year, which is equivalent, annually, to recognizing the dues monthly, or over time.

Management Fees: The Association provides management type services for its members pursuant to individual management agreements. The performance obligation for providing these services is satisfied over time because the members are continually receiving and consuming the benefits as they are provided by the Association each month. Therefore, revenue related to management fees is recognized monthly, or over time.

Health and Welfare Administration: The Association provides insurance services for its members whereby it collects insurance premiums and remits them to the applicable carrier. Fees associated with these services are billed monthly pursuant to individual participation agreements. The performance obligation for providing these services is satisfied over time because the members are continually receiving and consuming the benefits as they are provided by the Association each month. Therefore, revenue related to health and welfare administration is recognized monthly, or over time.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Revenue Recognition, Continued: *Educational and Conferences:* The Association earns revenues related to registration fees and educational program or event fees. The performance obligation for providing these classes or events is satisfied at a point in time, the day of the class or event. Therefore, revenue related to classes and events is recognized on the day that the class or event is completed.

Contract assets relate to the Association's conditional right to payment for performance completed to date under a contract. Accounts receivable are recorded when the right to payment becomes unconditional. Contract liabilities represent the Association's obligation to transfer goods or services to a customer when the customer prepays consideration for goods and services. The Association has no contract assets at December 31, 2022, 2021, or 2020. The Association has contract liabilities of \$722,698 at December 31, 2022, \$634,260 at December 31, 2021, and \$724,516 at January 1, 2021, which are recorded as deferred revenue on the accompanying Consolidated Statements of Financial Position.

Functional Allocation of Expenses: The accompanying 2022 and 2021 Consolidated Statements of Functional Expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Association are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas (indirect costs) have been allocated across programs and other supporting services based on time and effort or the proportion of employees within a program or other supporting service versus the total organizational employee count.

Income Taxes: VBA is generally exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia. The consolidated financial statements provide for income taxes for its for-profit subsidiaries, Benefits Corporation and Management Services. These subsidiaries file separate federal and state income tax returns. Properties is classified as a partnership for federal income tax purposes and, therefore, the consolidated financial statements do not include a provision for income taxes for this entity.

Income Tax Uncertainties: The Association follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the Association's tax positions and concluded that the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Association is not currently under audit by any tax jurisdiction.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Concentrations of Credit Risk: Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash, investments and receivables.

The Association maintains its cash balances in financial institutions with balances that periodically exceed federally insured limits.

Accounts receivable are reviewed for credit worthiness and consist mainly of amounts due from members of the Association, Affiliated Trusts, and affiliated companies.

The Association invests in certificates of deposit, mutual funds and equity securities. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the consolidated financial statements.

Advertising Expense: Advertising costs are expensed as incurred and amounted to \$3,517 for 2022 and \$4,031 for 2021.

Subsequent Events: Management has evaluated subsequent events through June 8, 2023, the date the consolidated financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Cash and Cash Equivalents:

Cash and cash equivalents at December 31, 2022 and 2021 consisted of:

	2022	2021
Cash	\$ 1,924,427	\$ 2,685,095
Money market accounts	<u>2,282,323</u>	<u>384,933</u>
	<u>\$ 4,206,750</u>	<u>\$ 3,070,028</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

4. Investment Income:

Investment income, net, for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Interest on cash equivalents	\$ 14,990	\$ 7,448
Interest and dividends on investments	122,099	246,805
Net (depreciation) appreciation in the fair value of investments	(775,523)	337,070
Realized gain on investments	2,436,223	35,417
Less: investment expenses	<u>(10,197)</u>	<u>(5,038)</u>
	<u>\$ 1,787,592</u>	<u>\$ 621,702</u>

The net (depreciation) appreciation in the fair value of investments shown above includes retirement benefits and nonmarketable stock included in investments in the accompanying Consolidated Statements of Financial Position, net of investment expenses.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

5. Liquidity and Availability of Resources:

The following table reflects the Association's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 4,206,750	\$ 3,070,028
Investments - certificates of deposit	1,855,083	1,523,222
Investments	3,562,613	3,675,243
Accounts receivable	515,183	545,215
Retirement benefits	1,108,852	1,309,741
Cash surrender value of life insurance	135,241	129,775
Accrued interest receivable	3,958	2,676
Financial assets, at year-end	11,387,680	10,255,900
Less those unavailable for general expenditure within one year, due to:		
Investments not convertible to cash within next 12 months	(1,213,516)	(753,367)
Retirement benefits designated for future retirement liabilities	(1,108,852)	(1,309,741)
Financial assets available to meet cash needs for general expenditures within one year	\$ 9,065,312	\$ 8,192,792

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

6. Fair Value Measurements:

FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
- Level 2 Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
- Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair values of equity investments (equities and mutual funds) that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Certificates of deposit: Valued at face value, plus accrued interest as reported by the issuing institutions.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Cash surrender value of life insurance: The fair value and cash value of life insurance was determined to be the same because the life insurance policies have no liquid market value, they are not transferrable or assignable, and there are no defined maturities of the cash flows.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

6. Fair Value Measurements, Continued:

Alternative investment: Limited partnership interests are accounted for at fair value based on net asset value (“NAV”) of shares held by the Association as quoted by the fund manager, as a practical expedient. In accordance with Subtopic 820-10, investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. These investments totaled \$100,052 and \$96,805 at December 31, 2022 and 2021, respectively.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Association’s assets at fair value as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 1,855,083	\$ -	\$ 1,855,083
Mutual funds:				
Commodities	77,253	-	-	77,253
Mid cap	133,667	-	-	133,667
Money market	53,989	-	-	53,989
Large blend	627,908	-	-	627,908
International	517,366	-	-	517,366
Small cap	112,064	-	-	112,064
Financial	1,007,977	-	-	1,007,977
Other	69,352	-	-	69,352
Subtotal mutual funds	<u>2,599,576</u>	<u>-</u>	<u>-</u>	<u>2,599,576</u>
Equity securities	<u>847,085</u>	<u>-</u>	<u>-</u>	<u>847,085</u>
Subtotal investments at fair value	<u>3,446,661</u>	<u>1,855,083</u>	<u>-</u>	<u>5,301,744</u>
Retirement benefits	<u>1,108,852</u>	<u>-</u>	<u>-</u>	<u>1,108,852</u>
Cash surrender value of life insurance	<u>-</u>	<u>-</u>	<u>135,241</u>	<u>135,241</u>
Total assets at fair value	<u>\$ 4,555,513</u>	<u>\$ 1,855,083</u>	<u>\$ 135,241</u>	<u>\$ 6,545,837</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table sets forth by level, within the fair value hierarchy, the Association's retirement benefits by category as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Commodities	\$ 63,987	\$ -	\$ -	\$ 63,987
Mid cap	189,900	-	-	189,900
Money market	15,094	-	-	15,094
Large blend	617,854	-	-	617,854
International	19,860	-	-	19,860
Small cap	50,600	-	-	50,600
Financial	42,924	-	-	42,924
Other	108,633	-	-	108,633
Subtotal retirement benefits	<u>\$ 1,108,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,108,852</u>

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 1,523,222	\$ -	\$ 1,523,222
Mutual funds:				
Commodities	73,457	-	-	73,457
Mid cap	98,026	-	-	98,026
Money market	45,343	-	-	45,343
Large blend	602,868	-	-	602,868
International	520,978	-	-	520,978
Small cap	100,730	-	-	100,730
Financial	862,668	-	-	862,668
Other	76,130	-	-	76,130
Subtotal mutual funds	<u>2,380,200</u>	<u>-</u>	<u>-</u>	<u>2,380,200</u>
Equity securities	<u>1,131,838</u>	<u>-</u>	<u>-</u>	<u>1,131,838</u>
Subtotal investments at fair value	<u>3,512,038</u>	<u>1,523,222</u>	<u>-</u>	<u>5,035,260</u>
Retirement benefits	<u>1,309,741</u>	<u>-</u>	<u>-</u>	<u>1,309,741</u>
Cash surrender value of life insurance	<u>-</u>	<u>-</u>	<u>129,775</u>	<u>129,775</u>
Total assets at fair value	<u>\$ 4,821,779</u>	<u>\$ 1,523,222</u>	<u>\$ 129,775</u>	<u>\$ 6,474,776</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table sets forth by level, within the fair value hierarchy, the Association's retirement benefits by category as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Commodities	\$ 64,672	\$ -	\$ -	\$ 64,672
Mid cap	235,147	-	-	235,147
Money market	31,683	-	-	31,683
Large blend	763,552	-	-	763,552
International	25,597	-	-	25,597
Small cap	69,695	-	-	69,695
Financial	55,646	-	-	55,646
Other	<u>63,749</u>	<u>-</u>	<u>-</u>	<u>63,749</u>
Subtotal retirement benefits	<u>\$ 1,309,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,309,741</u>

Due to significant unobservable inputs included in the valuation model for the cash value of life insurance, the resulting accumulated premiums applied to the savings component of the life insurance policy is classified as level 3. The fair value of the life insurance contract was estimated at the net cash value the Association would receive if it surrendered the policy to the insurance provider. There were no transfers in or out of level three assets for 2022 or 2021.

Premiums paid for life insurance were \$5,466 for each of the years ended December 31, 2022 and 2021.

The Association's investments in alternative investments are subject to restrictions on frequency of redemptions. At December 31, 2022, no redemptions are allowed until the termination of the fund, which is scheduled for December 2030. At December 31, 2022, the Association had unfunded commitments related to alternative investments totaling \$27,244.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

7. Property and Equipment:

Property and equipment at December 31, 2022 and 2021 consisted of:

	<u>2022</u>	<u>2021</u>
Land	\$ 399,547	\$ 399,547
Building	3,212,346	3,151,137
Building improvements	754,416	746,691
Furniture and fixtures	1,005,439	1,005,760
Vehicles	<u>181,558</u>	<u>167,764</u>
	5,553,306	5,470,899
Accumulated depreciation	<u>(3,231,191)</u>	<u>(3,055,215)</u>
	<u>\$ 2,322,115</u>	<u>\$ 2,415,684</u>

Depreciation expense was \$235,071 for 2022 and \$235,302 for 2021.

A portion of the Association's office space is leased to an unrelated party with a lease term that began in January 2020. The amount received for rent was \$96,653 for 2022 and \$87,645 for 2021. Additional space is leased to a related party as discussed in Note 10.

8. Employee Benefit Plans:

The Association participates in a defined benefit cash balance plan through the State Bankers Association Master Defined Benefit Pension Plan and Trust (the "Plan"), which covers substantially all employees. Contributions and benefits are based upon age and level of compensation.

The Association is required to recognize the funded status of defined benefit and other postretirement plans as an asset or liability in the accompanying Consolidated Statements of Financial Position. Funded status represents the difference between the fair value of plan assets and the projected benefit obligation. Changes in the net actuarial pension loss, net of taxes, are required to be recognized through the accompanying Consolidated Statements of Activities in the year in which the changes occur.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

8. Employee Benefit Plans, Continued:

Defined benefit plan

The following sets forth the changes in the benefit obligation, plan assets and funded status of the Plan and the amounts recognized in the Association's accompanying Consolidated Statements of Financial Position as of December 31:

	2022	2021
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 4,245,131	\$ 4,252,260
Service cost	148,828	144,276
Interest cost	115,717	105,470
Actuarial gain	(1,016,746)	(104,369)
Benefits paid	(211,827)	(152,506)
Projected benefit obligation, end of year	3,281,103	4,245,131
Change in plan assets:		
Fair value of assets, beginning of year	4,272,848	3,848,593
Actual (loss) return on plan assets	(937,323)	426,761
Employer contributions	300,000	150,000
Benefits paid	(211,827)	(152,506)
Fair value of assets, end of year	3,423,698	4,272,848
Accumulated benefit obligation	\$ 3,281,103	\$ 4,245,131
Funded status at end of year	\$ 142,595	\$ 27,717
Net periodic pension cost	\$ (42,472)	\$ (5,825)

Assumptions used to determine benefit obligation:

	2022	2021
Discount rate	5.00%	2.75%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Expected long-term return on assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

8. Employee Benefit Plans, Continued:

The Association's pension plan weighted-average asset allocations by asset category are as follows as of December 31:

	2022	2021
Mutual funds - fixed income	38%	38%
Mutual funds - equity	<u>62%</u>	<u>62%</u>
	<u>100%</u>	<u>100%</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Cash and cash equivalents: Valued at cost which approximates fair value.

Mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The following tables set forth, by level within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	2022			Total
	Level 1	Level 2	Level 3	
Cash and equivalents	\$ 4,890	\$ -	\$ -	\$ 4,890
Mutual funds:				
Fixed income funds	1,300,411	-	-	1,300,411
Equity funds	<u>2,118,397</u>	<u>-</u>	<u>-</u>	<u>2,118,397</u>
Total assets at fair value	<u>\$ 3,423,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,423,698</u>

	2021			Total
	Level 1	Level 2	Level 3	
Cash and equivalents	\$ 5,179	\$ -	\$ -	\$ 5,179
Mutual funds:				
Fixed income funds	1,620,357	-	-	1,620,357
Equity funds	<u>2,647,312</u>	<u>-</u>	<u>-</u>	<u>2,647,312</u>
Total assets at fair value	<u>\$ 4,272,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,272,848</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

8. Employee Benefit Plans, Continued:

The Plan is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 40% fixed income and 60% equities for 2022 and 2021. The investment manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan's investment strategy. The investment manager considers both actively and passively managed investment strategies and allocates funds across the asset classes.

Expected long-term rate of return on assets

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with the investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed especially with respect to real rates of return (net of inflation) for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience with higher significance placed on current forecasts of future long-term economic conditions. Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Discount rate

The process used to select the discount rate assumption takes into account the benefit cash flow and the segmented yields on high-quality corporate bonds that would be available to provide for the payment of the benefit cash flow. A single effective discount rate, rounded to the nearest 0.25%, is then established that produces an equivalent discounted present value.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

8. Employee Benefit Plans, Continued:

Pension benefit payments, which reflect future service, as appropriate, are expected to be paid as follows for the subsequent years ending December 31:

Year Ended	Amount
2023	\$ 62,353
2024	134,881
2025	133,042
2026	131,062
2027	157,111
Thereafter	3,311,921
	\$ 3,930,370

Net periodic pension cost for 2023 is expected as follows:

Service costs	\$ 121,144
Interest cost	162,515
Expected return on assets	(245,997)
Amortization of unrecognized prior service cost and net loss	53,826
	\$ 91,488

Defined contribution plan

The Association has a 401(k) profit sharing plan for substantially all of their employees. The total amount contributed to the plan was \$133,415 and \$131,820 for 2022 and 2021, respectively.

Postretirement benefits plan

The Association has committed to pay a portion of the health care premiums after retirement for one retired employee. The retiree has been granted insurance at the same rate as current employees. The accrued postretirement health care benefit for the covered retiree has been actuarially determined based on the maximum monthly amount and their life expectancy. The discount rate used that sets forth the weighted average assumptions for the accrued postretirement health care benefit for 2022 and 2021 was 2.75% and 2.50%, respectively. This plan is unfunded. Annual payments for 2022 and 2021 approximate \$11,800 and \$11,700, respectively. The healthcare cost trend rate for 2023 is expected to be 6%, and ultimately expected to be 4% by 2027.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

8. Employee Benefit Plans, Continued:

The following sets forth the change in the benefit obligation, plan assets and funded status of the postretirement health care benefit plan and the amounts recognized in the Association's accompanying Consolidated Statements of Financial Position as of December 31:

	2022	2021
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 156,587	\$ 164,219
Interest cost	4,145	3,960
Actuarial (gain) loss	(17,996)	93
Benefits paid	(11,785)	(11,685)
Projected benefit obligation, end of year	130,951	156,587
Change in plan assets:		
Fair value of assets, beginning of year	-	-
Employer contributions	11,785	11,685
Benefits paid	(11,785)	(11,685)
Fair value of assets, end of year	-	-
Funded status, end of year	\$ (130,951)	\$ (156,587)

The Association also provides retirement benefits for the current President and CEO through fully funded annuity and mutual fund contracts. The Association is the beneficiary under the contracts until retirement of the individual. The present value of the future benefits to be paid and the related retirement asset account have been recorded in the accompanying Consolidated Statements of Financial Position as retirement benefits and retirement liability.

9. Cash Surrender Value of Life Insurance:

The Association maintains a split-dollar life insurance policy with one key employee. The Association's interest in the agreement is limited to the lesser of the total premiums paid by the Association or the total cash value of the policy, less any indebtedness against the policy. The Association has paid cumulative premiums, net of redemption proceeds, of \$135,241 and \$129,775 at December 31, 2022 and 2021, respectively. The accompanying Consolidated Statements of Financial Position reflect the amount that could be realized by the Association from the surrender of the life insurance policies as of December 31, 2022 and 2021.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

10. Related Party Transactions:

Properties leases a portion of the headquarters building to an affiliated company. The amounts received from this company for rent during 2022 and 2021 were \$177,130 and \$168,215, respectively, and are included in lease income on the accompanying Consolidated Statements of Activities. Payments due under the lease are \$191,832 for 2023 with an annual rate increase based on the Consumer Price Index through 2024, for a total of \$383,664.

Management Services collects fees for the management of affiliated companies. The fees received from these companies for management services during 2022 and 2021 were \$724,616 and \$878,830, respectively, and have been included in the accompanying Consolidated Statements of Activities as management fees.

Benefits Corporation received management fees from some of the Affiliated Trusts in the amounts of \$841,174 and \$826,196 during 2022 and 2021, respectively. These management fees have been included as revenue in the accompanying Consolidated Statements of Activities as defined benefit and contribution administrative fees and as nonqualified plan fees.

At December 31, 2022 and 2021, the amounts owed to the Association by affiliated companies totaled \$48,177 and \$144,442, respectively. These amounts are included in accounts receivable on the accompanying Consolidated Statements of Financial Position.

11. Income Taxes:

Deferred income taxes result primarily from accelerated depreciation, unrealized investment gains, pension liabilities/assets, and certain other items of income and expense, which are recognized in the financial statements in periods different from when they are recognized for tax purposes.

Net deferred income taxes include the following components at December 31:

	<u>2022</u>	<u>2021</u>
Deferred tax assets	\$ 135,992	\$ 32,343
Deferred tax liabilities	<u>(209,197)</u>	<u>(251,737)</u>
Deferred income taxes, net	<u>\$ (73,205)</u>	<u>\$ (219,394)</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

11. Income Taxes, Continued:

Income tax expense (benefit) consists of the following for the years ended December 31:

	2022		
	VBA Benefits Corporation	VBA Management Services, Inc.	Total
Current tax expense	\$ -	\$ 527,006	\$ 527,006
Deferred tax benefit	(104,394)	(42,540)	(146,934)
	<u>\$ (104,394)</u>	<u>\$ 484,466</u>	<u>\$ 380,072</u>
	2021		
	VBA Benefits Corporation	VBA Management Services, Inc.	Total
Current tax expense	\$ 91,189	\$ 155,790	\$ 246,979
Deferred tax benefit	26,156	90,739	116,895
	<u>\$ 117,345</u>	<u>\$ 246,529</u>	<u>\$ 363,874</u>

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

11. Income Taxes, Continued:

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following at year end:

	2022		
	VBA	VBA	Total
	Benefits	Management	
	Corporation	Services, Inc.	
Unrealized losses (gains) on securities	\$ 97,275	\$ (168,207)	\$ (70,932)
Net operating loss	3,801	-	3,801
Property and equipment	(2,801)	(6,393)	(9,194)
Accrued pension	2,490	(60,425)	(57,935)
Investment in subsidiary	30,609	22,151	52,760
Accrued vacation	4,618	3,677	8,295
	<u>\$ 135,992</u>	<u>\$ (209,197)</u>	<u>\$ (73,205)</u>
	2021		
	VBA	VBA	Total
	Benefits	Management	
	Corporation	Services, Inc.	
Unrealized gains on securities	\$ (10,783)	\$ (255,539)	\$ (266,322)
Property and equipment	(4,295)	(8,162)	(12,457)
Accrued pension	19,680	(5,072)	14,608
Investment in subsidiary	23,266	12,709	35,975
Accrued vacation	4,475	4,327	8,802
	<u>\$ 32,343</u>	<u>\$ (251,737)</u>	<u>\$ (219,394)</u>

The Association's effective tax rate differs from the federal statutory rate of 21% primarily due to state taxes and certain nondeductible expenses.

12. Compensated Absences:

The Association has a vacation policy under which vacation benefits accrue during active service. Vacation benefits accrued but not taken, subject to certain limitations, are paid to employees upon termination. The liability, included in accounts payable and accrued expenses on the accompanying Consolidated Statements of Financial Position, was \$43,092 at December 31, 2022 and \$45,895 at December 31, 2021.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

13. Accounting Standards Updates:

Current Expected Credit Losses: In June 2016, the FASB issued ASU 2016-13 – Current Expected Credit Losses (“CECL”). The guidance requires use of the current expected credit loss model that is based on expected losses (net of expected recoveries), rather than incurred losses, to determine its allowance for credit losses on financial assets measured at amortized cost.

The new standard will be effective for periods beginning after December 15, 2022, and will require entities to use a modified retrospective approach to the earliest period presented. The Association is currently evaluating the reporting and economic implications of the new standard.

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SUPPLEMENTAL INFORMATION

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

**Consolidating Statement of Financial Position
December 31, 2022**

<u>Assets</u>	VBA					Total
	VBA General Fund	VBA Benefits Corporation	Management Services, Inc.	VBA Properties, LLC	Eliminations	
Cash and cash equivalents	\$ 627,077	\$ 563,837	\$ 2,740,457	\$ 275,379	\$ -	\$ 4,206,750
Investments	371,244	3,307,646	1,738,806	-	-	5,417,696
Accrued interest receivable	443	2,699	816	-	-	3,958
Accounts receivable	200,485	298,383	187,043	241	(170,969)	515,183
Accrued pension (liability) asset	(35,167)	8,852	176,195	(7,285)	-	142,595
Prepaid expenses	31,545	21,660	87,361	-	-	140,566
Property and equipment, net	84,922	10,882	37,706	2,188,806	(201)	2,322,115
Investment in subsidiaries	11,419,473	811,008	811,008	-	(13,041,489)	-
Retirement benefits	867,161	-	241,691	-	-	1,108,852
Cash surrender value of life insurance	135,241	-	-	-	-	135,241
Total assets	\$ 13,702,424	\$ 5,024,967	\$ 6,021,083	\$ 2,457,141	\$ (13,212,659)	\$ 13,992,956
<u>Liabilities and Net Assets</u>						
Liabilities:						
Accounts payable and accrued expenses	\$ 72,204	\$ 236,386	\$ 175,737	\$ 17,456	\$ (170,969)	\$ 330,814
Income taxes (receivable) payable	-	(98,964)	353,363	-	-	254,399
Deferred revenue	592,196	-	122,468	8,034	-	722,698
Accrued postretirement health care benefits	130,951	-	-	-	-	130,951
Retirement liability	867,161	-	241,691	-	-	1,108,852
Deferred income tax (asset) liability	-	(135,992)	209,197	-	-	73,205
Total liabilities	1,662,512	1,430	1,102,456	25,490	(170,969)	2,620,919
Net assets:						
Common stock	-	1,000	10,000	-	(11,000)	-
Additional paid-in capital	-	-	103,567	3,135,000	(3,238,567)	-
Net assets (deficit) - without donor restrictions	12,039,912	5,022,537	4,805,060	(703,349)	(9,792,123)	11,372,037
Total liabilities and net assets	\$ 13,702,424	\$ 5,024,967	\$ 6,021,083	\$ 2,457,141	\$ (13,212,659)	\$ 13,992,956

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

Consolidating Statement of Activities Year Ended December 31, 2022

	VBA					Total
	VBA General Fund	VBA Benefits Corporation	Management Services, Inc.	VBA Properties, LLC	Eliminations	
Without donor restrictions:						
Revenue:						
Health and welfare administrative fees	\$ -	\$ 1,798,712	\$ -	\$ -	\$ -	\$ 1,798,712
Investment income (loss), net	1,009	(351,115)	2,137,235	463	-	1,787,592
Education and conference revenue	-	-	1,671,179	-	-	1,671,179
Membership dues	1,168,054	-	-	-	-	1,168,054
Defined benefit and contribution administrative fees	-	762,918	-	-	-	762,918
Management fees	-	-	744,616	-	-	744,616
Product and endorsement income	-	-	470,309	-	-	470,309
Lease income	-	-	-	391,234	(117,451)	273,783
Nonqualified plan fees	-	218,592	-	-	-	218,592
Insurance commissions	-	-	46,444	-	-	46,444
Other revenue	20,806	26	-	-	-	20,832
Royalty revenue	165,339	-	-	-	(165,339)	-
Income (loss) from subsidiaries	1,131,715	(24,987)	(24,987)	-	(1,081,741)	-
Total revenue	2,486,923	2,404,146	5,044,796	391,697	(1,364,531)	8,963,031
Operating expenses:						
Salaries and benefits	746,443	1,370,945	1,615,795	19,995	-	3,753,178
Education and conferences	-	-	893,188	-	-	893,188
Consulting	21,945	680,048	18,826	7,700	-	728,519
Professional fees	57,973	211,595	39,668	4,678	-	313,914
Benefits administration	-	305,779	-	-	-	305,779
Occupancy	21,334	36,802	59,315	240,603	(117,451)	240,603
Depreciation	33,508	8,171	16,851	176,541	-	235,071
Office expenses	69,813	62,667	90,530	11,535	-	234,545
Other operating expenses	7,772	6,091	189,503	2,165	-	205,531
Travel and education	35,230	41,534	35,924	-	-	112,688
Insurance	11,940	20,684	14,342	3,442	-	50,408
Meetings	32,790	4,663	10,069	-	-	47,522
Publications and products	-	-	10,321	-	-	10,321
Marketing	-	3,517	-	-	-	3,517
Royalty expense	-	56,979	108,360	-	(165,339)	-
Income tax (benefit) expense	-	(104,394)	484,466	-	-	380,072
Total operating expenses	1,038,748	2,705,081	3,587,158	466,659	(282,790)	7,514,856
Change in net assets before pension-related changes	1,448,175	(300,935)	1,457,638	(74,962)	(1,081,741)	1,448,175
Pension-related changes other than net periodic pension cost and postretirement benefits	(65,711)	(84,373)	(75,967)	(1,542)	-	(227,593)
Postretirement changes	20,745	-	-	-	-	20,745
Change in net assets	1,403,209	(385,308)	1,381,671	(76,504)	(1,081,741)	1,241,327
Net assets, beginning of year	10,636,703	5,408,845	3,536,956	2,508,155	(11,959,949)	10,130,710
Net assets, end of year	\$ 12,039,912	\$ 5,023,537	\$ 4,918,627	\$ 2,431,651	\$ (13,041,690)	\$ 11,372,037

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA General Fund - Statements of Activities
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue:		
Membership dues:		
Active dues	\$ 960,054	\$ 921,268
Associate dues	<u>208,000</u>	<u>203,750</u>
Total membership dues	1,168,054	1,125,018
Investment income, net	1,009	15,035
Royalty revenue	165,339	-
Other revenue	20,806	22,562
Income from subsidiaries	<u>1,131,715</u>	<u>1,077,489</u>
Total revenue	<u>2,486,923</u>	<u>2,240,104</u>
Operating expenses:		
Salaries and benefits	746,443	906,169
Occupancy	21,334	20,260
Office expenses:		
Membership and public relations	24,545	23,225
Postage	423	300
Property taxes and business license	3,515	2,891
Supplies and maintenance	31,113	30,377
Telephone	<u>10,217</u>	<u>6,579</u>
Total office expenses	69,813	63,372
Consulting	21,945	16,171
Professional fees:		
Audit and tax	14,011	14,500
Legal and professional	<u>43,962</u>	<u>108,993</u>
Total professional fees	57,973	123,493
Meetings:		
Board and other expenses	29,975	2,381
Lobbying expenses	<u>2,815</u>	<u>1,565</u>
Total meetings	32,790	3,946
Insurance	11,940	11,467

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA General Fund - Statements of Activities, Continued
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating expenses, continued:		
Travel and education:		
Travel	\$ 33,735	\$ 17,405
Training and education	<u>1,495</u>	<u>1,591</u>
Total travel and education	35,230	18,996
Depreciation	33,508	28,428
Other operating expenses	<u>7,772</u>	<u>5,747</u>
Total operating expenses	<u>1,038,748</u>	<u>1,198,049</u>
Change in net assets before pension-related changes	<u>\$ 1,448,175</u>	<u>\$ 1,042,055</u>

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

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See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA Benefits Corporation - Statements of (Loss) Income
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue:		
Health and welfare administrative fees	\$ 1,798,712	\$ 2,019,902
Revenue sharing income	-	72,889
Defined benefit and contribution administrative fees	762,918	834,419
Nonqualified plan fees	218,592	140,924
Investment (loss) income, net	(351,115)	146,549
Other revenue	<u>26</u>	<u>2,392</u>
Total revenue	<u>2,429,133</u>	<u>3,217,075</u>
Operating expenses:		
Salaries and benefits	1,370,945	1,301,127
Benefits administration:		
COBRA administration	41,947	32,187
Recordkeeping	<u>263,832</u>	<u>291,331</u>
Total benefits administration	305,779	323,518
Occupancy	36,802	34,950
Office expenses:		
Membership and public relations	6,899	6,038
Postage	861	230
Property taxes and business license	1,428	1,510
Supplies and maintenance	38,555	36,524
Telephone	<u>14,924</u>	<u>11,034</u>
Total office expenses	62,667	55,336
Consulting	680,048	703,382
Professional fees:		
Audit and tax	67,428	70,600
Legal and professional	<u>144,167</u>	<u>217,417</u>
Total professional fees	211,595	288,017
Meetings	4,663	270

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA Benefits Corporation - Statements of (Loss) Income, Continued
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating expenses, continued:		
Insurance	\$ 20,684	\$ 19,615
Marketing	3,517	4,000
Travel and education:		
Training and education	5,058	7,234
Travel	<u>36,476</u>	<u>13,787</u>
Total travel and education	41,534	21,021
Royalty expense	56,979	-
Depreciation	8,171	17,053
Other operating expenses	6,091	6,447
Loss from subsidiary	<u>24,987</u>	<u>9,485</u>
Total operating expenses	<u>2,834,462</u>	<u>2,784,221</u>
(Loss) income before income taxes	(405,329)	432,854
Income tax (benefit) expense	<u>(104,394)</u>	<u>117,345</u>
Net (loss) income before pension-related changes	<u>\$ (300,935)</u>	<u>\$ 315,509</u>

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA Management Services, Inc. - Statements of Income Years Ended December 31, 2022 and 2021

	2022	2021
Revenue:		
Management fees:		
Bankers Insurance, LLC	\$ 150,000	\$ 240,833
Title agencies	526,694	576,753
Consulting services income	20,000	20,000
Virginia Mortgage Bankers Association	47,922	61,244
	744,616	898,830
Education and conference revenue	1,671,179	1,560,771
Product and endorsement income	470,309	467,025
Insurance commissions	46,444	41,129
Investment gain, net	2,137,235	460,010
Other revenue	-	642
Total revenue	5,069,783	3,428,407
Operating expenses:		
Salaries and benefits	1,615,795	1,357,143
Education and conferences	893,188	784,656
Occupancy	59,315	56,328
Office expenses:		
Membership and public relations	11,805	10,968
Postage	649	276
Property taxes and business license	2,067	1,934
Supplies and maintenance	60,191	59,219
Telephone	15,818	14,280
Total office expenses	90,530	86,677
Publications and products	10,321	8,947
Consulting	18,826	24,092
Professional fees	39,668	16,875
Board meetings	10,069	815
Insurance	14,342	13,667
Marketing	-	31

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA Management Services, Inc. - Statements of Income, Continued
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating expenses, continued:		
Travel and education:		
Training and education	\$ 3,976	\$ 3,458
Travel	<u>31,948</u>	<u>15,072</u>
Total travel and education	35,924	18,530
Royalty expense	108,360	-
Depreciation	16,851	18,961
Other operating expenses	189,503	14,205
Loss from subsidiary	<u>24,987</u>	<u>9,485</u>
Total operating expenses	<u>3,127,679</u>	<u>2,410,412</u>
Income before income taxes	1,942,104	1,017,995
Income tax expense	<u>484,466</u>	<u>246,529</u>
Net income before pension-related changes	<u>\$ 1,457,638</u>	<u>\$ 771,466</u>

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

See Independent Auditor's Report.

VIRGINIA BANKERS ASSOCIATION AND SUBSIDIARIES

VBA Properties, LLC - Statements of Loss
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue:		
Lease income	\$ 391,234	\$ 367,398
Investment income	463	108
Other income	<u>-</u>	<u>208</u>
Total revenue	391,697	367,714
Operating expenses:		
Salaries and benefits	19,995	20,427
Occupancy:		
Janitorial	36,101	22,688
Property taxes and business license	24,971	28,097
Repairs and maintenance	120,097	65,319
Utilities	<u>59,434</u>	<u>54,881</u>
Total occupancy	240,603	170,985
Office expenses:		
Membership and public relations	3,309	3,111
Postage	79	69
Supplies and maintenance	8,003	755
Telephone	<u>144</u>	<u>136</u>
Total office expenses	11,535	4,071
Consulting	7,700	8,400
Professional fees, audit and tax	4,678	4,675
Insurance	3,442	3,265
Depreciation	176,541	170,860
Other operating expenses	<u>2,165</u>	<u>13,487</u>
Total operating expenses	<u>466,659</u>	<u>396,170</u>
Net loss before pension-related changes	<u>\$ (74,962)</u>	<u>\$ (28,456)</u>

Note: The effects of ASC 842 are not included on the schedule. The amounts net to zero on a consolidated basis.

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