

**GERMANNA COMMUNITY COLLEGE
EDUCATIONAL FOUNDATION, INC.**

Locust Grove, Virginia

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

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50 S. Cameron St,
Winchester, VA 22601
540.662.3417
YHBcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Germanna Community College Educational Foundation, Inc.
Locust Grove, Virginia

Opinion

We have audited the consolidated financial statements of Germanna Community College Educational Foundation, Inc. and Subsidiary (the Foundation) which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued



Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 are 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 the Foundation’s 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation’s 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining schedules are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yount, Hyde & Barbours, P.C.

Winchester, Virginia
May 3, 2023

GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

Consolidated Statements of Financial Position

December 31, 2022 and 2021

Assets	2022	2021
Current Assets		
Cash and cash equivalents	\$ 801,987	\$ 701,788
Accounts receivable	3,850	28,287
Current portion of pledges receivable	500,000	150,000
Prepaid expenses and other assets	47,814	4,500
Total current assets	<u>\$ 1,353,651</u>	<u>\$ 884,575</u>
Noncurrent Assets		
Marketable securities	\$ 9,453,547	\$ 12,114,530
Pledges receivable	1,100,000	--
Cash value of life insurance	120,607	121,787
Other assets	102,420	102,420
Right-of-use assets - operating	31,636	--
Property and equipment, net	<u>14,420,421</u>	<u>2,860,228</u>
Total assets	<u>\$ 26,582,282</u>	<u>\$ 16,083,540</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 110,366	\$ 46,210
Accrued expenses and other liabilities	94,451	--
Current portion of note payable	51,844	--
Current portion of lease liabilities - operating	21,980	--
Total current liabilities	<u>\$ 278,641</u>	<u>\$ 46,210</u>
Noncurrent Liabilities		
Note payable, less current portion	\$ 9,723,156	\$ --
Lease liabilities - operating, less current portion	9,607	--
Total liabilities	<u>\$ 10,011,404</u>	<u>\$ 46,210</u>
Net Assets		
Without donor restrictions:		
Board designated	\$ 650,738	\$ 1,147,286
Undesignated	5,166,288	3,681,614
	<u>\$ 5,817,026</u>	<u>\$ 4,828,900</u>
With donor restrictions:		
Purpose restrictions	\$ 7,159,179	\$ 8,447,490
Perpetual in nature	3,594,673	2,760,940
	<u>\$ 10,753,852</u>	<u>\$ 11,208,430</u>
Total net assets	<u>\$ 16,570,878</u>	<u>\$ 16,037,330</u>
Total liabilities and net assets	<u>\$ 26,582,282</u>	<u>\$ 16,083,540</u>

See Notes to Consolidated Financial Statements.

GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

Consolidated Statement of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains (Losses), and Other Support:			
Contributions			
Contributed financial assets	\$ 285,830	\$ 3,581,345	\$ 3,867,175
Contributed nonfinancial assets	472,148	--	472,148
Investment return, net	(278,957)	(1,625,872)	(1,904,829)
Contribution portion of special events	130,472	--	130,472
Exchange portion of special events	37,050	--	37,050
Other income	52,882	--	52,882
Rental income	124,074	--	124,074
Total revenues, gains (losses) and other support	<u>\$ 823,499</u>	<u>\$ 1,955,473</u>	<u>\$ 2,778,972</u>
Net assets released from restrictions	<u>\$ 2,410,051</u>	<u>\$ (2,410,051)</u>	<u>\$ --</u>
Total revenues, gains (losses) and other support	<u>\$ 3,233,550</u>	<u>\$ (454,578)</u>	<u>\$ 2,778,972</u>
 Expenses:			
Program services	\$ 1,270,439	\$ --	\$ 1,270,439
Management and general	624,941	--	624,941
Fundraising	350,044	--	350,044
Total expenses	<u>\$ 2,245,424</u>	<u>\$ --</u>	<u>\$ 2,245,424</u>
Change in net assets	<u>\$ 988,126</u>	<u>\$ (454,578)</u>	<u>\$ 533,548</u>
Net Assets, beginning of year	<u>\$ 4,828,900</u>	<u>\$ 11,208,430</u>	<u>\$ 16,037,330</u>
Net Assets, end of year	<u>\$ 5,817,026</u>	<u>\$ 10,753,852</u>	<u>\$ 16,570,878</u>

See Notes to Consolidated Financial Statements.

GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

Consolidated Statement of Activities
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains (Losses), and Other Support:			
Contributions			
Contributed financial assets	\$ 17,675	\$ 1,449,678	\$ 1,467,353
Contributed nonfinancial assets	418,080	--	418,080
Investment return, net	224,172	958,550	1,182,722
Contribution portion of special events	278,616	--	278,616
Exchange portion of special events	5,930	--	5,930
(Loss) on sale of real estate and other assets	(490,194)	--	(490,194)
Other income	8,000	--	8,000
Total revenues, gains (losses) and other support	\$ 462,279	\$ 2,408,228	\$ 2,870,507
 Net assets released from restrictions	 \$ 648,916	 \$ (648,916)	 \$ --
Total revenues, gains (losses) and other support	\$ 1,111,195	\$ 1,759,312	\$ 2,870,507
 Expenses:			
Program services	\$ 945,247	\$ --	\$ 945,247
Management and general	387,633	--	387,633
Fundraising	264,634	--	264,634
Total expenses	\$ 1,597,514	\$ --	\$ 1,597,514
Change in net assets	\$ (486,319)	\$ 1,759,312	\$ 1,272,993
 Net Assets, beginning of year	 \$ 5,315,219	 \$ 9,449,118	 \$ 14,764,337
 Net Assets, end of year	 \$ 4,828,900	 \$ 11,208,430	 \$ 16,037,330

See Notes to Consolidated Financial Statements.

GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

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

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 533,548	\$ 1,272,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized loss (gain) on marketable securities	1,996,082	(1,106,244)
Loss on sale of assets	--	490,194
Change in cash value of life insurance	10,180	8,645
Gifts to permanent endowment	(833,734)	(128,685)
Depreciation expense	62,395	--
Amortization of right-of-use asset	20,158	--
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	24,437	(23,704)
(Increase) in contributions receivable	(1,450,000)	(150,000)
(Increase) in prepaid expenses and other assets	(43,314)	--
Increase in accounts payable	64,156	14,168
Increase in accrued expenses	94,451	--
(Decrease) in lease liabilities	(20,207)	--
Net cash provided by operating activities	\$ 458,152	\$ 377,367
Cash Flows from Investing Activities		
Purchases of long-term marketable securities	\$ (4,663,965)	\$ (2,711,439)
Proceeds from sale of marketable securities	5,328,866	2,164,952
Purchases of property and equipment	(11,622,588)	--
Proceeds from sale of assets	--	117,866
Payments of life insurance premium	(9,000)	(9,000)
Net cash (used in) investing activities	\$ (10,966,687)	\$ (437,621)
Cash Flows from Financing Activities		
Gifts to permanent endowment	\$ 833,734	\$ 128,685
Proceeds from note payable	9,775,000	--
Net cash provided by financing activities	\$ 10,608,734	\$ 128,685
Increase in cash and cash equivalents	\$ 100,199	\$ 68,431
Cash and Cash Equivalents		
Beginning of year	\$ 701,788	\$ 633,357
End of year	\$ 801,987	\$ 701,788
Supplemental Disclosure of Cash Flow Information,		
cash paid for interest	\$ 76,681	\$ --
Supplemental Disclosures of Noncash Financing and Investing Activities,		
right-of-use assets recognized with the adoption of ASC 842	\$ 51,794	\$ --

See Notes to Consolidated Financial Statements.

GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Germanna Community College Educational Foundation, Inc. (the Educational Foundation) is a nonprofit Foundation formed to foster and promote the growth, progress, and general welfare of Germanna Community College (the College), part of the Virginia Community College System, which is an agency of the Commonwealth of Virginia. The Educational Foundation accomplishes its purposes through fundraising and funds management efforts to benefit the College and its programs. A substantial portion of the Educational Foundation's revenue and support is received in the form of private gifts from alumni and friends of the College.

The Germanna Community College Real Estate Foundation (the Real Estate Foundation) provides expertise and support for all of the Educational Foundation's real estate needs. The Real Estate Foundation creates value by working with the Educational Foundation to accept and manage gifts of real estate, facilitate strategic acquisitions of real estate, create and execute long-term strategic plans to develop properties for the benefit of Germanna Community College, its students and the Commonwealth of Virginia.

Principles of Consolidation

The consolidated financial statements include the accounts of the Educational Foundation and the Real Estate Foundation (collectively referred to as the "Foundation"). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Notes to Consolidated Financial Statements

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair market value at the time of donation. Depreciation is calculated using the straight-line method over the asset useful life. Buildings are depreciated over 30 years and furniture and equipment over 5 years.

Revenue Recognition

The Foundation recognizes revenue in accordance with ASC Topic 606. This standard provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Nature of Products and Services

Rental income is considered an exchange transaction and recorded as revenue at the point in time in which the goods or services are provided by the Foundation.

The Foundation records special events revenue equal to the cost of direct benefits to donors and contribution revenue for the difference.

Transaction Price

The transaction price is the amount of consideration to which the Foundation expects to be entitled in exchange for transferring goods and services to the customer.

Contract Balances

Funds received by the Foundation relating to revenue generating activities of future reporting periods would be recorded as a contract liability (deferred revenue) on the statements of financial position. Deferred revenue of \$61,764 is included in accrued and other liabilities on the statements of financial position as of December 31, 2022.

The Foundation recognizes contributions when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognition until the conditions on which they depend have been met.

Gifts of cash and other assets for the general use and benefit of the Foundation are presented as net assets without donor restrictions. Other contributions are presented as net assets with donor restrictions if they are received with donor stipulations that further limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Notes to Consolidated Financial Statements

Net assets with donor restrictions whose restrictions are met in the same year are reflected as net assets without donor restrictions. Promises to give are recognized as revenue when the pledge is received from a donor and as an expense when payment is authorized by the Board of Directors. Amounts due to be received or paid are discounted to their net present value. Changes in discounts are recognized as contribution revenue or expense over the period of the pledge.

Cash and Cash Equivalents

The Foundation considers cash in demand deposit, money market accounts, and other highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The balances in these accounts at times may exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

Marketable Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Net unrealized and realized gains or losses are reflected in the statement of activities.

Gifts of marketable securities are recorded at their fair value (based upon quoted market prices or appraisals if not publicly traded) at the date of gift. Purchases and sales of investments are recorded as of the trade date.

Income Taxes

The Foundation is a nonprofit Foundation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation adopted the provisions of accounting for uncertainty in income tax positions as required by the Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification; however, management does not believe it is exposed to any such positions as they are defined in this guidance. Both Foundations file Form 990, *Return of Organization Exempt from Income Tax*, annually with the United States Department of the Treasury.

Advertising

The Foundation uses advertising to promote its programs. The costs of advertising are expensed as incurred. During the years ended December 31, 2022 and 2021, advertising costs totaled \$28,105 and \$34,753, respectively.

Notes to Consolidated Financial Statements

Functional Allocation of Expenses

The cost of providing various programs and activities has been summarized in the schedule of functional expenses. Certain costs have been allocated among program services, management and general, and fundraising. Such allocations have been made by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Scholarships	Direct costs
Personnel costs	Time and effort
Direct support to the College	Direct costs
Rental expenses	Direct costs
Food, beverages, and entertainment	Direct costs
Professional fees	Direct costs
Interest expense	Direct costs
Office supplies and services	Direct costs
Insurance	Direct costs
Professional development and travel	Direct costs
Advertising, promotion, and public relations	Direct costs
Property taxes	Direct costs
Other	Direct costs
Software	Direct costs
Communications - postage and telephone	Direct costs
Bank fees and financial expense	Direct costs
Printing	Direct costs
Licenses, fees, and permits	Direct costs
Depreciation	Direct costs
Utilities	Direct costs
Repairs and maintenance	Direct costs

Estimates

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

Notes to Consolidated Financial Statements

Recently Adopted Accounting Pronouncements

Nonfinancial Contributions

In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The Foundation adopted ASU 2020-7 beginning January 1, 2022.

Contributed nonfinancial assets are recorded at the respective fair value of the goods or services received. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program services, administration and fundraising; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Leases

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Foundation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, *Leases*.

The Foundation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Foundation does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Foundation has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

Notes to Consolidated Financial Statements

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Foundation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

The Foundation made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable, they will be incurred.

The Foundation has made an accounting policy election to account for lease and non-lease components in its contracts as separate lease component for its real estate, vehicle, and equipment asset classes. The non-lease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded as lease expense in the period incurred.

Adoption of Topic 842 did result in the recording of ROU assets and lease liabilities at January 1, 2022 of \$51,794.

Note 2. Liquidity and Availability of Resources

The Foundation has \$205,532 and \$2,136,175 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure for the years ended December 31, 2022 and 2021, respectively. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

The Foundation has board-designated net assets of \$650,738 and \$1,147,286 as of December 31, 2022 and 2021, respectively. Although the Foundation does not intend to spend from the board designated funds, these amounts could be made available if necessary.

Notes to Consolidated Financial Statements

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of December 31, 2022 and 2021:

	2022	2021
Financial assets, at year-end:		
Cash and cash equivalents	\$ 801,987	\$ 701,788
Accounts receivable	3,850	28,287
Pledge receivables	1,600,000	150,000
Marketable securities	9,453,547	12,114,530
Total financial assets	\$ 11,859,384	\$ 12,994,605
Less amounts not available to be used within one year:		
Pledge receivable not expected to be collected within one year	\$ 1,100,000	\$ 100,000
Restricted by donors for purpose	6,561,113	6,903,778
Endowment less amount available for general expenditure within one year	3,992,739	3,854,652
Financial assets not available to be used within one year	\$ 11,653,852	\$ 10,858,430
Financial assets available to meet cash needs for general expenditures within one year	\$ 205,532	\$ 2,136,175

Note 3. Marketable Securities

Marketable securities at December 31, 2022 and 2021, carried at fair value as determined by quoted market prices, are as follows:

	2022		
	Cost	Market Value	Unrealized Appreciation
Money market funds and cash equivalents	\$ 736,495	\$ 736,495	\$ - -
Mutual funds and exchange traded funds	756,751	770,545	13,794
Corporate, government and municipal bonds	3,594,201	3,204,856	(389,345)
Equity securities	3,923,724	4,741,651	817,927
	\$ 9,011,171	\$ 9,453,547	\$ 442,376
	2021		
	Cost	Market Value	Unrealized Appreciation
Money market funds and cash equivalents	\$ 1,269,652	\$ 1,269,652	\$ - -
Mutual funds and exchange traded funds	709,691	963,386	253,695
Corporate, government and municipal bonds	3,871,801	3,905,716	33,915
Equity securities	3,705,789	5,975,776	2,269,987
	\$ 9,556,933	\$ 12,114,530	\$ 2,557,597

Notes to Consolidated Financial Statements

Investment return, net consisted of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 234,089	\$ 232,380
Net realized and unrealized investment (losses) gains	(1,996,082)	1,106,244
Investment fees	<u>(142,836)</u>	<u>(155,902)</u>
	<u>\$ (1,904,829)</u>	<u>\$ 1,182,722</u>

Note 4. Endowment

The Endowment includes net assets with donor restrictions and certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

The Foundation's Board of Directors has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Notes to Consolidated Financial Statements

The endowment net assets consist of donor restricted endowments and one board designated endowment. Changes therein during the years ended December 31, 2022 and 2021, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, December 31, 2020	\$ 100,072	\$ 3,822,173	\$ 3,922,245
Investment return, net	--	494,693	494,693
Contributions	13,001	128,685	141,686
Appropriation of endowment assets for expenditures	--	(140,899)	(140,899)
Endowment Net Assets, December 31, 2021	\$ 113,073	\$ 4,304,652	\$ 4,417,725
Investment return, net	(19,523)	(743,524)	(763,047)
Contributions	--	833,734	833,734
Appropriation of endowment assets for expenditures	--	(193,486)	(193,486)
Endowment Net Assets, December 31, 2022	\$ 93,550	\$ 4,201,376	\$ 4,294,926

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Finance Committee, the endowment assets are invested in a manner that is intended to ensure preservation of capital. Safety of principal is the primary objective. Investments are sufficiently liquid to enable the Foundation to meet all reasonable anticipated operating requirements, and return objectives are set based on a standard market rate of return, taking into account the cash flow characteristics of the investments.

The Foundation expects its endowment funds, over time, to provide an average rate of return. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Notes to Consolidated Financial Statements

Spending Policy and How the Investment Objectives Relate to Spending Policy:

The Foundation's spending policy regarding endowment income is established by the Foundation's Finance Committee on an annual basis. The Finance Committee examines the endowment funds' earnings and establishes an earnings spending plan for the upcoming year based on anticipated investment earnings. Spending may be taken from current income or, if current income is less than planned spending, from prior periods' retained earnings. The target annual distribution rate is currently 4.5 percent of the average market value of the endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation's Finance Committee has elected to cease spending of any underwater endowment fund until the fair value of the fund exceeds the original corpus. There were no underwater endowment funds at December 31, 2022 and 2021.

Note 5. Fair Value Measurements and Disclosures

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Notes to Consolidated Financial Statements

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

Money Market Funds and Cash Equivalents: Money market funds and other cash equivalents are valued at a constant net asset value of \$1.00 per share, which approximates fair market value. Money market funds are primarily invested in short-term US Treasury and government backed securities. There are no limitations on redemption or unfunded commitments related to these investments. Fair value is determined using Level 1 inputs.

Mutual Funds and Exchange Traded Funds, Corporate Bonds and Equity Securities: Mutual funds and exchange traded funds, corporate bonds and equity securities, for which a quoted market price is available on an active market, are valued according to Level 1 inputs.

Corporate, Government, and Municipal Bonds: Bond securities and municipal bonds, for which a quoted market price is available on an active market, are valued according to Level 1 inputs.

Equity Securities: The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

The table below presents the balances of investments measured at fair value on a recurring basis, by level, within the fair value hierarchy at December 31, 2022 and 2021:

	2022			
	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 736,495	\$ --	\$ --	\$ 736,495
Mutual funds and exchange traded funds	770,545	--	--	770,545
Corporate bonds	3,204,856	--	--	3,204,856
Equity securities	<u>4,741,651</u>	<u>--</u>	<u>--</u>	<u>4,741,651</u>
	<u>\$ 9,453,547</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,453,547</u>
	2021			
	Level 1	Level 2	Level 3	Total
Money market accounts	\$ 1,269,652	\$ --	\$ --	\$ 1,269,652
Mutual funds and exchange traded funds	963,386	--	--	963,386
Corporate bonds	3,905,716	--	--	3,905,716
Equity securities	<u>5,975,776</u>	<u>--</u>	<u>--</u>	<u>5,975,776</u>
	<u>\$ 12,114,530</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12,114,530</u>

Notes to Consolidated Financial Statements

Note 6. Property and Equipment

In 1998 and 2005, 71 acres and 29 acres of land, respectively, were donated to the Foundation to be used as institutional sites promoting technical education, technical vocational education, and higher learning. In 2005, 34 acres of gifted land was transferred to Germanna Community College for the site of Germanna Center for Advanced Technology for educational purposes.

In 2018, Stafford County, Virginia conveyed approximately 25 acres to the Foundation to establish a Stafford Campus/Center for Germanna Community College. The Foundation has 20 years to meet all applicable requirements included in the Memorandum of Agreement with the County. If the requirements are not met and the Foundation has not constructed or established the Stafford Campus/Center for Germanna Community College, the Foundation shall convey the property back to the County.

During the year ended December 31, 2022, the Foundation purchased the office buildings (Stafford buildings) in for a total contract sales price of \$11,500,000.

	2022	2021
Land	\$ 6,911,368	\$ 2,860,228
Buildings	7,487,448	--
Furniture and equipment	5,440	5,440
Construction in progress	84,000	--
	\$ 14,488,256	\$ 2,865,668
Less accumulated depreciation	(67,835)	(5,440)
	\$ 14,420,421	\$ 2,860,228

Note 7. Note Payable

On September 30, 2022, the Foundation entered into a loan agreement to assist with the purchase of the Stafford Buildings for \$12,300,000. The initial disbursement of the loan was \$9,775,000 and the remaining balance represents a line of credit of \$2,525,000. Payments on the loan began on November 10, 2022 with twelve (12) monthly payments of interest only. After the interest only period, there will be three hundred (300) consecutive payments of principal and interest beginning on November 1, 2023, in an estimated monthly payment amount of \$61,247. The Foundation does not expect to draw on the line of credit until 2024.

Maturities of the note payable are as follows:

2023	\$	51,844
2024		317,395
2025		328,519
2026		340,034
2027		351,953
Thereafter		8,385,255
		\$ 9,775,000

Notes to Consolidated Financial Statements

Note 8. Life Insurance Policy

The Foundation maintains a life insurance policy on one of its Board members. Under the terms of the policy, the Foundation receives all the benefits upon the death of the insured. As of December 31, 2022 and 2021, the death benefit of the life insurance was \$505,000, with a net cash surrender value of \$120,607 and \$121,787, respectively.

Note 9. Leases

The Foundation leases office space under a long-term, non-cancelable operating lease agreement. The lease expires in June 2024 with two options to renew for three years each. Renewal options are included in the lease term only when it is reasonably certain that the Foundation will exercise this option. At this time, the Foundation is not certain whether they will renew the lease in the future. The lease agreement provides for increases in future minimum annual rental payments and requires the Foundation to pay a pro-rata share of operating expenses including common area maintenance, real estate taxes, trash expenses and insurance costs.

Total expense recognized for the Foundation's rental payments and operating expenses was \$21,653 and \$30,260, respectively, for the year ended December 31, 2022. As of December 31, 2022, the Company's discount rate was 3.5% with a remaining lease term of 1.5 years.

The following table summarizes the maturity of the Foundation's lease liabilities on an undiscounted cash flow basis and a reconciliation to the lease liabilities recognized in the consolidated statement of financial position.

2023	\$ 22,740
2024	<u>9,790</u>
Total future minimum lease payments	\$ 32,530
Imputed interest	<u>(943)</u>
Present value of minimum lease payments	<u>\$ 31,587</u>

Note 10. Pledge Receivable

Pledge receivable at December 31, 2022 was \$1,600,000, made up of three pledges. There is no allowance or discount recognized as of December 31, 2022. The future expected collections are as follows:

2023	\$ 500,000
2024	450,000
2025	400,000
2026	150,000
2027	<u>100,000</u>
Total pledges receivable expected to be collected	<u>\$ 1,600,000</u>

Notes to Consolidated Financial Statements

Note 11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	2022	2021
Subject to expenditure for specified purpose:		
Culpeper Site	\$ 762,190	\$ 930,613
Stafford Campus Building	1,692,629	1,481,197
Scholarships	1,679,559	1,690,516
Nursing Program	1,385,737	1,743,524
Fredericksburg Area Campus	112,072	136,382
Tech Prep	1,823	1,823
Locust Grove Campus	891	891
Other	324,138	395,465
	602,074	523,367
	\$ 6,561,113	\$ 6,903,778
Endowments:		
Scholarships	\$ 2,927,954	\$ 2,123,335
Nursing Fellowship	186,702	186,702
Other	480,017	450,903
	\$ 3,594,673	\$ 2,760,940
Subject to endowment spending policy and appropriation:		
Scholarships	\$ 308,247	\$ 1,048,378
Nursing Fellowship	124,186	196,512
Other	165,633	298,822
	\$ 598,066	\$ 1,543,712
Total endowments	\$ 4,192,739	\$ 4,304,652
Total net assets with donor restrictions	\$ 10,753,852	\$ 11,208,430

Notes to Consolidated Financial Statements

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Satisfaction of purpose restrictions		
Culpeper Site	\$ 8,174	\$ 8,623
Stafford Campus	1,001,589	13,725
Building	500,000	-
Scholarships	317,494	333,296
Nursing Program	1,180	1,245
Locust Grove Campus	3,475	3,662
Other	384,653	147,466
	\$ 2,216,565	\$ 508,017
Subject to endowment spending policy and appropriation		
Scholarships	\$ 173,667	\$ 121,500
Nursing Fellowship	6,781	8,157
Other	13,038	11,242
	\$ 193,486	\$ 140,899
Total net assets released from donor restrictions	\$ 2,410,051	\$ 648,916

Note 12. Contributed Nonfinancial Assets and Related Party Transactions

Contributed nonfinancial assets consisting of personnel costs from the College were \$470,600 and \$416,520 for the years ended December 31, 2022 and 2021, respectively. Personnel costs are allocated between program, management and general, and fundraising based on time and effort.

Contributed nonfinancial assets consisting of facilities space from unrelated, outside parties were \$1,548 for the years ended December 31, 2022 and 2021. This contribution was recognized at fair value based on current rates for similar space.

Note 13. Related Party Transactions

During the years ended December 31, 2022 and 2021, the Foundation awarded \$989,822 and \$770,540, respectively, directly to and on behalf of the College for scholarships and provided \$115,563 and \$20,000 in other direct support during the years ended December 31, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

Note 14. Schedules of Functional Expenses

A breakdown of expenses by function for the year ended December 31, 2022 is as follows:

	2022			
	Program Services	Management and General	Fundraising	Total
Scholarships	\$ 1,069,622	\$ --	\$ --	\$ 1,069,622
Personnel costs	33,167	215,365	222,068	470,600
Direct support to the College	146,859	--	--	146,859
Professional fees	--	53,636	61,600	115,236
Interest expense	--	76,681	--	76,681
Depreciation	--	62,395	--	62,395
Rental expenses	--	53,984	6,079	60,063
Utilities	--	44,563	--	44,563
Food, beverages, and entertainment	12,473	2,129	27,640	42,242
Software	--	37,056	--	37,056
Advertising, promotion, and public relations	2,341	11,007	14,757	28,105
Other	3,377	24,081	388	27,846
Insurance	--	18,447	--	18,447
Professional development and travel	2,600	10,566	1,766	14,932
Printing	--	--	13,458	13,458
Office supplies and services	--	8,369	2,288	10,657
Bank fees and financial expense	--	2,874	--	2,874
Communications - postage and telephone	--	2,629	--	2,629
Repairs and maintenance	--	1,074	--	1,074
Licenses, fees, and permits	--	85	--	85
	\$ 1,270,439	\$ 624,941	\$ 350,044	\$ 2,245,424

A breakdown of expenses by function for the year ended December 31, 2021 is as follows:

	2021			
	Program Services	Management and General	Fundraising	Total
Scholarships	\$ 786,184	\$ --	\$ --	\$ 786,184
Personnel costs	29,952	191,486	195,082	416,520
Direct support to the College	97,623	--	--	97,623
Rental expenses	420	53,110	3,410	56,940
Food, beverages, and entertainment	25,421	2,506	14,536	42,463
Professional fees	--	30,221	11,015	41,236
Software	--	35,597	--	35,597
Advertising, promotion, and public relations	5,302	6,108	23,343	34,753
Printing	--	9,776	13,059	22,835
Insurance	--	13,455	--	13,455
Office supplies and services	--	11,190	2,048	13,238
Professional development and travel	35	10,629	1,067	11,731
Other	310	9,877	200	10,387
Bank fees and financial expense	--	7,499	376	7,875
Property taxes	--	4,223	--	4,223
Communications - postage and telephone	--	1,921	498	2,419
Licenses, fees, and permits	--	35	--	35
	\$ 945,247	\$ 387,633	\$ 264,634	\$ 1,597,514

Notes to Consolidated Financial Statements

Note 15. Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 3, 2023, the date the consolidated financial statements were available to be issued. The Foundation has determined there are no subsequent events that require recognition or disclosure.

**GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC. AND
GERMANNA COMMUNITY COLLEGE REAL ESTATE FOUNDATION, INC.**

Combining Statement of Financial Position

December 31, 2022

Assets	Germanna Community College Educational Foundation, Inc.	Germanna Community College Real Estate Foundation, Inc.	Total
Current Assets			
Cash and cash equivalents	\$ 673,554	128,433	801,987
Accounts receivable	3,850	--	3,850
Current portion of pledge receivable	300,000	200,000	500,000
Intercompany receivable	901,815	--	901,815
Prepaid expenses and other assets	4,500	43,314	47,814
Total current assets	<u>\$ 1,883,719</u>	<u>\$ 371,747</u>	<u>\$ 2,255,466</u>
Noncurrent Assets			
Marketable securities	\$ 9,453,547	\$ --	\$ 9,453,547
Pledge receivable	550,000	550,000	1,100,000
Cash value of life insurance	120,607	--	120,607
Other assets	102,420	--	102,420
Right-of-use assets - operating	31,636	--	31,636
Property and equipment, net	--	14,420,421	14,420,421
Total assets	<u>\$ 12,141,929</u>	<u>\$ 15,342,168</u>	<u>\$ 27,484,097</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 23,712	\$ 86,654	\$ 110,366
Accrued expenses and other liabilities	--	94,451	94,451
Intercompany payable	--	901,815	901,815
Current portion of note payable	--	51,844	51,844
Current portion of lease liabilities - operating	21,980	--	21,980
Total current liabilities	<u>\$ 45,692</u>	<u>\$ 1,134,764</u>	<u>\$ 1,180,456</u>
Noncurrent Liabilities			
Note payable, less current portion	\$ --	\$ 9,723,156	\$ 9,723,156
Lease liabilities - operating, less current portion	9,607	--	9,607
Total liabilities	<u>\$ 55,299</u>	<u>\$ 10,857,920</u>	<u>\$ 10,913,219</u>
Net Assets			
Without donor restrictions:			
Board designated	\$ 650,738	\$ --	\$ 650,738
Undesignated	682,040	4,484,248	5,166,288
	<u>\$ 1,332,778</u>	<u>\$ 4,484,248</u>	<u>\$ 5,817,026</u>
With donor restrictions:			
Purpose restrictions	\$ 7,159,179	\$ --	\$ 7,159,179
Perpetual in nature	3,594,673	--	3,594,673
	<u>\$ 10,753,852</u>	<u>\$ --</u>	<u>\$ 10,753,852</u>
Total net assets	<u>\$ 12,086,630</u>	<u>\$ 4,484,248</u>	<u>\$ 16,570,878</u>
Total liabilities and net assets	<u>\$ 12,141,929</u>	<u>\$ 15,342,168</u>	<u>\$ 27,484,097</u>

See Independent Auditor's Report

**GERMANNA COMMUNITY COLLEGE EDUCATIONAL FOUNDATION, INC. AND
GERMANNA COMMUNITY COLLEGE REAL ESTATE FOUNDATION, INC.**

Combining Statement of Activities
For the Year Ended December 31, 2022

	Germanna Community College Educational Foundation, Inc.	Germanna Community College Real Estate Foundation, Inc.	Total
Revenues, Gains (Losses), and Other Support:			
Contributions			
Contributed financial assets	\$ 3,867,175	\$ --	\$ 3,867,175
Contributed nonfinancial assets	472,148	--	472,148
Investment return, net of fees	(1,904,829)	--	(1,904,829)
Contribution portion of special events	130,472	--	130,472
Exchange portion of special events	37,050	--	37,050
Other income	52,882	--	52,882
Rental income	--	124,074	124,074
Total revenues, gains (losses) and other support	<u>\$ 2,654,898</u>	<u>\$ 124,074</u>	<u>\$ 2,778,972</u>
Expenses:			
Program services	\$ 1,270,439	\$ --	\$ 1,270,439
Management and general	386,219	238,722	624,941
Fundraising	350,044	--	350,044
Total expenses	<u>\$ 2,006,702</u>	<u>\$ 238,722</u>	<u>\$ 2,245,424</u>
Change in net assets	<u>\$ 648,196</u>	<u>\$ (114,648)</u>	<u>\$ 533,548</u>
Transfers	<u>\$ (1,688,579)</u>	<u>\$ 1,688,579</u>	<u>\$ --</u>
Net Assets, beginning of year	<u>\$ 13,127,013</u>	<u>\$ 2,910,317</u>	<u>\$ 16,037,330</u>
Net Assets, end of year	<u>\$ 12,086,630</u>	<u>\$ 4,484,248</u>	<u>\$ 16,570,878</u>

See Independent Auditor's Report