

# **Arlington Community Foundation**

Financial Report  
June 30, 2022

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RSM US LLP

## Independent Auditor's Report

Board of Trustees  
Arlington Community Foundation

### Opinion

We have audited the financial statements of the Arlington Community Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### 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 or available to be 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.

*RSM US LLP*

McLean, Virginia  
December 21, 2022

**Arlington Community Foundation**

**Statements of Financial Position  
June 30, 2022 and 2021**

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
| <b>Assets</b>                                      |                      |                      |
| Cash and cash equivalents                          | \$ 3,277,552         | \$ 2,174,807         |
| Investments  | 24,377,049           | 23,180,620           |
| Promises to give                                   | 342,815              | 96,632               |
| Prepaid expenses and other assets                  | 32,151               | 21,433               |
|  | <u>28,029,567</u>    | <u>25,473,492</u>    |
| <b>Total assets</b>                                | <b>\$ 28,029,567</b> | <b>\$ 25,473,492</b> |
| <b>Liabilities and Net Assets</b>                  |                      |                      |
| Liabilities:                                       |                      |                      |
| Accounts payable                                   | \$ 18,715            | \$ 60,619            |
| Accrued expenses                                   | 49,323               | 47,530               |
| Grants and scholarships payable                    | 657,001              | 872,875              |
| Paycheck Protection Program loan payable           | -                    | 69,880               |
| Agency funds                                       | 4,299,003            | 5,492,731            |
| <b>Total liabilities</b>                           | <b>5,024,042</b>     | <b>6,543,635</b>     |
| Commitments and contingencies (Note 10)            |                      |                      |
| Net assets:  |                      |                      |
| Without donor restrictions:                        |                      |                      |
| Operating  | 1,259,959            | 1,337,163            |
| Board-designated                                   | 38,787               | 26,060               |
| Donor-advised and other funds                      | 19,389,919           | 15,161,262           |
| <b>Total net assets without donor restrictions</b> | <b>20,688,665</b>    | <b>16,524,485</b>    |
| With donor restrictions                            | 2,316,860            | 2,405,372            |
| <b>Total net assets</b>                            | <b>23,005,525</b>    | <b>18,929,857</b>    |
| <b>Total liabilities and net assets</b>            | <b>\$ 28,029,567</b> | <b>\$ 25,473,492</b> |

See notes to financial statements.

**Arlington Community Foundation**

**Statement of Activities  
Year Ended June 30, 2022**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|--|-------------------------------|----------------------------|----------------------|
| Support and revenue:                                 |                               |                            |                      |
| Contributions and grants                             | \$ 11,864,908                 | \$ 466,918                 | \$ 12,331,826        |
| Gain on loan forgiveness                             | 69,880                        | -                          | 69,880               |
| Management fees                                      | 47,943                        | -                          | 47,943               |
| Net assets released from restriction—management fees | 29,221                        | (29,221)                   | -                    |
| Net assets released from restriction                 | 239,953                       | (239,953)                  | -                    |
| <b>Total support and revenue</b>                     | <b>12,251,905</b>             | <b>197,744</b>             | <b>12,449,649</b>    |
| Expenses:  |                               |                            |                      |
| Program services:                                    |                               |                            |                      |
| Community services                                   | 4,346,126                     | -                          | 4,346,126            |
| Supporting services:                                 |                               |                            |                      |
| Management and general                               | 227,991                       | -                          | 227,991              |
| Development and fundraising                          | 312,607                       | -                          | 312,607              |
| <b>Total supporting services</b>                     | <b>540,598</b>                | <b>-</b>                   | <b>540,598</b>       |
| <b>Total expenses</b>                                | <b>4,886,724</b>              | <b>-</b>                   | <b>4,886,724</b>     |
| <b>Change in net assets before investment loss</b>   | <b>7,365,181</b>              | <b>197,744</b>             | <b>7,562,925</b>     |
| Investment loss, net                                 | (3,201,001)                   | (286,256)                  | (3,487,257)          |
| <b>Change in net assets</b>                          | <b>4,164,180</b>              | <b>(88,512)</b>            | <b>4,075,668</b>     |
| Net assets:  |                               |                            |                      |
| Beginning  | 16,524,485                    | 2,405,372                  | 18,929,857           |
| Ending   | <b>\$ 20,688,665</b>          | <b>\$ 2,316,860</b>        | <b>\$ 23,005,525</b> |

See notes to financial statements.

**Arlington Community Foundation**

**Statement of Activities  
Year Ended June 30, 2021**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|--|-------------------------------|----------------------------|----------------------|
| Support and revenue:                                 |                               |                            |                      |
| Contributions and grants                             | \$ 2,985,728                  | \$ 176,780                 | \$ 3,162,508         |
| Special events                                       | 103,750                       | -                          | 103,750              |
| Gain on loan forgiveness                             | 71,100                        | -                          | 71,100               |
| Management fees                                      | 42,610                        | -                          | 42,610               |
| Net assets released from restriction—management fees | 24,422                        | (24,422)                   | -                    |
| Net assets released from restriction                 | 135,404                       | (135,404)                  | -                    |
| <b>Total support and revenue</b>                     | <b>3,363,014</b>              | <b>16,954</b>              | <b>3,379,968</b>     |
| Expenses:  |                               |                            |                      |
| Program services:                                    |                               |                            |                      |
| Community services                                   | 3,024,489                     | -                          | 3,024,489            |
| Supporting services:                                 |                               |                            |                      |
| Management and general                               | 266,483                       | -                          | 266,483              |
| Development and fundraising                          | 254,065                       | -                          | 254,065              |
| <b>Total supporting services</b>                     | <b>520,548</b>                | <b>-</b>                   | <b>520,548</b>       |
| <b>Total expenses</b>                                | <b>3,545,037</b>              | <b>-</b>                   | <b>3,545,037</b>     |
| <b>Change in net assets before investment income</b> | <b>(182,023)</b>              | <b>16,954</b>              | <b>(165,069)</b>     |
| Investment income, net                               | 3,379,337                     | 497,214                    | 3,876,551            |
| <b>Change in net assets</b>                          | <b>3,197,314</b>              | <b>514,168</b>             | <b>3,711,482</b>     |
| Net assets:  |                               |                            |                      |
| Beginning  | 13,327,171                    | 1,891,204                  | 15,218,375           |
| Ending   | <b>\$ 16,524,485</b>          | <b>\$ 2,405,372</b>        | <b>\$ 18,929,857</b> |

See notes to financial statements.

**Arlington Community Foundation**

**Statement of Functional Expenses  
Year Ended June 30, 2022**

|                                  | Supporting Services   |                           |                                |                              | Total               |
|----------------------------------|-----------------------|---------------------------|--------------------------------|------------------------------|---------------------|
|                                  | Community<br>Services | Management<br>and General | Development<br>and Fundraising | Total Supporting<br>Services |                     |
| Grants                           | \$ 3,082,542          | \$ -                      | \$ -                           | \$ -                         | \$ 3,082,542        |
| Salaries and fringe benefits     | 439,129               | 146,902                   | 231,533                        | 378,435                      | 817,564             |
| Advertising and publicity        | -                     | 20,513                    | -                              | 20,513                       | 20,513              |
| Bank fees                        | -                     | 8,632                     | -                              | 8,632                        | 8,632               |
| Dues and subscriptions           | 3,936                 | 3,149                     | 788                            | 3,937                        | 7,873               |
| Equipment rental and maintenance | 5,116                 | 1,712                     | 2,697                          | 4,409                        | 9,525               |
| Events                           | -                     | -                         | 18,728                         | 18,728                       | 18,728              |
| Insurance                        | -                     | 4,870                     | -                              | 4,870                        | 4,870               |
| Meetings and conferences         | 3,503                 | 3,502                     | -                              | 3,502                        | 7,005               |
| Occupancy                        | 26,590                | 8,896                     | 14,020                         | 22,916                       | 49,506              |
| Office supplies                  | 7,164                 | 2,397                     | 3,778                          | 6,175                        | 13,339              |
| Postage and delivery             | 875                   | 293                       | 461                            | 754                          | 1,629               |
| Printing and duplicating         | 3,790                 | 1,268                     | 1,998                          | 3,266                        | 7,056               |
| Professional services            | 767,366               | 23,810                    | 35,381                         | 59,191                       | 826,557             |
| Taxes and licenses               | 552                   | 185                       | 290                            | 475                          | 1,027               |
| Telephone                        | 2,743                 | 918                       | 1,446                          | 2,364                        | 5,107               |
| Travel                           | 2,820                 | 944                       | 1,487                          | 2,431                        | 5,251               |
|                                  | <b>\$ 4,346,126</b>   | <b>\$ 227,991</b>         | <b>\$ 312,607</b>              | <b>\$ 540,598</b>            | <b>\$ 4,886,724</b> |

See notes to financial statements.



**Arlington Community Foundation**

**Statement of Functional Expenses  
Year Ended June 30, 2021**

|                                  | Community<br>Services | Supporting Services       |                                |                              | Total               |
|----------------------------------|-----------------------|---------------------------|--------------------------------|------------------------------|---------------------|
|                                  |                       | Management<br>and General | Development<br>and Fundraising | Total Supporting<br>Services |                     |
| Grants                           | \$ 2,523,182          | \$ -                      | \$ -                           | \$ -                         | \$ 2,523,182        |
| Salaries and fringe benefits     | 313,773               | 164,974                   | 115,970                        | 280,944                      | 594,717             |
| Advertising and publicity        | -                     | 1,641                     | 94,954                         | 96,595                       | 96,595              |
| Bank fees                        | -                     | 8,923                     | -                              | 8,923                        | 8,923               |
| Dues and subscriptions           | 3,803                 | 1,999                     | 1,406                          | 3,405                        | 7,208               |
| Equipment rental and maintenance | 4,373                 | 2,298                     | 1,616                          | 3,914                        | 8,287               |
| Events                           | -                     | -                         | 22,133                         | 22,133                       | 22,133              |
| Insurance                        | -                     | 2,771                     | -                              | 2,771                        | 2,771               |
| Meetings and conferences         | 174                   | 174                       | 86                             | 260                          | 434                 |
| Occupancy                        | 22,209                | 11,677                    | 8,209                          | 19,886                       | 42,095              |
| Office supplies                  | 1,420                 | 738                       | 525                            | 1,263                        | 2,683               |
| Postage and delivery             | 718                   | 378                       | 265                            | 643                          | 1,361               |
| Printing and duplicating         | 1,558                 | 819                       | 576                            | 1,395                        | 2,953               |
| Professional services            | 150,489               | 68,623                    | 7,293                          | 75,916                       | 226,405             |
| Telephone                        | 2,496                 | 1,313                     | 923                            | 2,236                        | 4,732               |
| Travel                           | 294                   | 155                       | 109                            | 264                          | 558                 |
|                                  | <u>\$ 3,024,489</u>   | <u>\$ 266,483</u>         | <u>\$ 254,065</u>              | <u>\$ 520,548</u>            | <u>\$ 3,545,037</u> |

See notes to financial statements.

**Arlington Community Foundation**

**Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

|   | 2022                | 2021                |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Change in net assets  | \$ 4,075,668        | \$ 3,711,482        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Net realized and unrealized loss (gain) on investments                                      | 3,987,649           | (3,367,378)         |
| Endowment cash receipts   | (41,918)            | (130,194)           |
| Gain on forgiveness of Paycheck Protection Program loan                                     | (69,880)            | (71,100)            |
| Changes in assets and liabilities:  |                     |                     |
| (Increase) decrease in:   |                     |                     |
| Promises to give  | (246,183)           | 78,302              |
| Prepaid expenses and other assets   | (10,718)            | (12,268)            |
| Increase (decrease) in:   |                     |                     |
| Accounts payable  | (41,904)            | 49,228              |
| Accrued expenses  | 1,793               | (1,086)             |
| Grants and scholarships payable   | (215,874)           | (61,375)            |
| Agency funds  | (1,193,728)         | 239,813             |
| <b>Net cash provided by operating activities</b>  | <b>6,244,905</b>    | <b>435,424</b>      |
| Cash flows from investing activities:   |                     |                     |
| Proceeds from sale of investments   | 5,725,300           | 1,595,770           |
| Purchases of investments  | (10,909,378)        | (2,699,113)         |
| <b>Net cash used in investing activities</b>  | <b>(5,184,078)</b>  | <b>(1,103,343)</b>  |
| Cash flows from financing activities:   |                     |                     |
| Endowment cash receipts   | 41,918              | 130,194             |
| Proceeds from Paycheck Protection Program loan  | -                   | 69,880              |
| <b>Net cash provided by financing activities</b>  | <b>41,918</b>       | <b>200,074</b>      |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | <b>1,102,745</b>    | <b>(467,845)</b>    |
| Cash and cash equivalents:  |                     |                     |
| Beginning   | 2,174,807           | 2,642,652           |
| Ending  | <b>\$ 3,277,552</b> | <b>\$ 2,174,807</b> |

See notes to financial statements.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Arlington Community Foundation (the Foundation) is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia. The Foundation's primary purpose is to maintain an endowment that receives and expends contributions, donations, bequests, devises, grants and conveyances and to render financial assistance to the charitable, educational and cultural activities of the Arlington County community and elsewhere. The Foundation's support comes primarily from various organizations and individuals located within Arlington County. Supporters of the Foundation are able to establish a Foundation Fund or support a core of existing funds.

A summary of the Foundation's significant accounting policies are as follows:

**Basis of presentation:** The financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Entities Topic of the FASB ASC, the Foundation is required to report information regarding its financial position and activities according to the following two classes of net assets:

**Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions consist of the following types of internally designated funds:

*Operating funds:* Funds available for the general operations of the Foundation and other activities as decided by the Board and management. The Foundation has community-wide interest and donors with broad interests that entrust the Foundation's Board of Trustees with selection of the most necessary or promising programs and organizations to receive competitively awarded grants. These funds allow the Foundation to respond to existing, changing or urgent community needs.

*Board-designated funds:* Funds whose use has been designated by the Foundation's Board of Trustees for specific purposes. Board-designated net assets consist of a board-designated endowment, the Foundation's Prompt Response Fund, which is designed to help the Foundation respond quickly to help nonprofits when an emergency, disaster, or crisis hit.

*Community funds:* The Foundation depends on these broadly responsive, community-focused funds to proactively address the changing needs of the community and support innovative responses. The Foundation's fundholders establish legacies that provide flexible support to meet the challenges of tomorrow.

*Field of interest funds:* These funds allow donors to address one or more focal points for their giving, often based on their personal interests. Funding is given to the donors' favorite region or cause, while remaining flexible to meet changing community needs in the focus areas over time.

*Donor-advised funds:* Funds established by donor contributions that enable donors to make recommendations from time to time about the distributions from the funds. These funds are established by individuals, families or businesses that choose to be actively involved in the grantmaking process. Donors with a range of community interests find these to be an ideal tool for conveniently fulfilling charitable wishes.

*Scholarship funds:* Scholarship funds, often created in honor or in memory of a loved one, award funds to deserving students.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Net assets with donor restrictions:** Net assets with donor restrictions represent resources restricted by donors. 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 released from restrictions when the assets are placed in service. Along with specific contributions restricted as to time or purpose, net assets with donor restrictions consist of the following types of funds:

**Designated funds:** Designated funds are established by donors to support one or more of their favorite nonprofit organizations. Many organizations receive crucial annual support from these funds.

**Permanent endowment funds:** Investment income generated from permanent endowment funds is used to fulfill programs or general operations of the Foundation

**Cash and cash equivalents:** The Foundation considers highly liquid investments with an original maturity of three months or less as cash equivalents.

**Investments:** Investments are reported at fair value. Realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by the donor or by law. Gains and losses related to agency funds are reported as a change in the liability for agency funds.

**Financial risk:** The Foundation maintains demand deposits with commercial banks and money market funds held by others. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Foundation.

The Foundation invests funds in a professionally managed portfolio that contains various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks could materially affect investment balances and the amounts reported in the financial statements. By policy, these investments are kept within limits intended to prevent risks caused by concentration.

**Promises to give:** Promises to give consist of unconditional promises to give from various donors. Amounts that are expected to be collected within one year are reported at their net realizable values. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows net of any discount.

Management of the Foundation reviews the outstanding promises to give at year-end for collectability, and each receivable, in conjunction with bad debt write-offs experienced in the past, is assessed based on management's knowledge of the donor, the Foundation's relationship with the donor, and the age of the promise to give balance to determine the need to establish an allowance for uncollectible accounts. No allowance for uncollectible accounts was considered necessary as of June 30, 2022 and 2021. Receivables are written off when they are deemed uncollectible.

**Grants and scholarships payable:** Grants and scholarships payable are recorded when approved by the Board. All grants and scholarships are unconditional.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Agency transactions:** Organizations place endowment funds at the Foundation to help manage their long-term investments and ensure a permanent source of income. These funds are categorized as agency transactions if the contributing organization retains the right to remove the funds. The Foundation has recorded the funds received and the related net investment income for agency transactions as corresponding assets and liabilities and has not included these transactions in net assets without donor restrictions.

**Contributions and grants:** The activities of the Foundation are primarily financed by contributions. Unconditional contributions and grants are recognized as revenue when promised unconditionally and are recorded net of any current year allowance or discount activity. The Foundation reports gifts of cash and other non-cash assets as net assets with donor restrictions if they are received or promised with donor stipulations that limit the use of the donated assets to a particular program or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restriction.

Unconditional contributions that are restricted by the donor are reported as net assets without donor restriction if the restriction expires in the same reporting period in which the contribution is recognized. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are recognized only when the conditions on which they depend are met. Assets received in connection with conditional promises are reported as refundable advances until such time the conditions are met. At June 30, 2022 and 2021, there were no conditional promises to give.

**Contributed securities:** The Foundation recognizes donated securities or other assets that have no donor-imposed restrictions and that are immediately converted into cash as cash from operating activities. During the years ended June 30, 2022 and 2021, the Foundation received approximately \$4,902,000 and \$1,075,000, respectively, in donated securities that were immediately converted into cash and recognized as cash flows from operating activities in the accompanying statements of cash flows.

**Management fees:** The Foundation assesses a management fee to each fund held within the Foundation. The management fee for agency funds is 1% on the first \$500,000, 0.75% for anything above \$500,000, and a minimum charge of \$200 per year. The management fee for scholarship funds is 1.5%, with a minimum fee of \$200 per year. Donor-advised funds have a management fee of 1.25% on the first \$1,000,000, 1% on the next \$2,000,000, and 0.75% on anything above \$3,000,000. There is a minimum fee of \$200 per year for these funds. All other funds have a management fee of 1.25% with a minimum fee of \$200. The revenue is recognized ratably over time as the service is performed.

**Special events revenue:** The Foundation hosts an annual fundraiser event. The revenue is recognized when the event takes place. Any prepaid ticket sales or sponsorship income is recorded as deferred revenue at year-end. There was not annual fundraiser during the year ended June 30, 2022.

**Contracts and agreements:** The Foundation has entered into memorandums of understanding (MOUs) with multiple nonprofit organizations to provide services and funding to the organizations over a specified period. The Foundation reimburses the organizations as they expend funds. Expenses related to these activities are recognized when the reimbursement request is approved. To date, \$444,036 has been paid under the MOUs to assist these organizations. Total commitments outstanding to these organizations at June 30, 2022 and 2021, is \$0 and \$55,963, respectively.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as salaries, benefits, moving and travel expenses have been allocated among programs and supporting services benefited based on estimated level of effort. Occupancy expenses have also been allocated among programs and supporting services based on the square footage occupied.

**Income tax status:** The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) on net income derived from activities related to its exempt purpose. This code section enables the Foundation to accept donations that qualify as charitable contributions to the donor. The Foundation has been classified as other than a private foundation under Section 509(a)(1) of the IRC. The Foundation is subject to tax on net income from unrelated business activities. For the years ended June 30, 2022 and 2021, the Foundation did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

**Adopted accounting pronouncement:** In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which requires a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The Foundation adopted the provisions of ASU 2020-07 for the year ending June 30, 2022. The adoption of ASU 2020-07 had no impact on the financial statements.

**Pending accounting pronouncement:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The standard is effective for periods beginning after December 15, 2021, with early adoption permitted. The Foundation is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

**Subsequent events:** The Foundation has evaluated subsequent events through December 31, 2022, the date on which the financial statements were available to be issued.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 2. Concentrations

**Support concentration:** For the year ended June 30, 2022, two donors provided approximately 67% of total support and revenue. For the year ended June 30, 2021, two donors provided approximately 28% of total support and revenue.

#### Note 3. Investments

In accordance with generally accepted accounting principles, the Foundation uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk:

**Level 1:** Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes.

**Level 2:** Includes inputs other than Level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data.

**Level 3:** Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments are reported at fair value on a recurring basis. Such investments consist of a diversified portfolio of marketable securities.

All of the Foundation's investments were classified as Level 1 investments as of June 30, 2022 and 2021.

The following table presents the Foundation's investment portfolio at June 30, 2022 and 2021, for those assets measured at fair value:

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
| Mutual funds/ETF—domestic equity       | \$ 6,348,416         | \$ 13,255,064        |
| Mutual funds/ETF—international equity  | 2,342,507            | 2,752,688            |
| Mutual funds/ETF—domestic fixed income | 9,361,718            | 7,166,233            |
| Domestic equities                      | 6,324,408            | 6,635                |
|  | <u>\$ 24,377,049</u> | <u>\$ 23,180,620</u> |

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 3. Investments (Continued)

Investment income for the years ended June 30, 2022 and 2021, is comprised of the following:

|  | 2022                  | 2021                |
|--|-----------------------|---------------------|
| Interest and dividends                               | \$ 696,286            | \$ 682,368          |
| Net realized and unrealized (loss) gain              | (4,764,932)           | 4,296,755           |
| Investment management fees                           | (84,764)              | (27,021)            |
|  | <u>(4,153,410)</u>    | <u>4,952,102</u>    |
| Investment earnings (losses) related to agency funds | 666,153               | (1,075,551)         |
| Total  | <u>\$ (3,487,257)</u> | <u>\$ 3,876,551</u> |

Management fees for the year ended June 30, 2022, totaled \$325,738, of which \$47,943 was related to the agency funds and \$277,815 was related to the donor-advised, field of interest and scholarship funds.

Management fees for the year ended June 30, 2021, totaled \$241,185, of which \$42,610 was related to the agency funds and \$198,575 was related to the donor-advised, field of interest and scholarship funds.

#### Note 4. Liquidity

The Foundation has a goal to maintain financial assets, which consist of cash and cash equivalents, on hand to meet 90 days of normal operating expenses, which approximates \$350,000. The Foundation's financial assets available within one year to meet cash needs for general expenditures as of June 30, 2022 and 2021, are as follows:

|   | 2022                | 2021                |
|---|---------------------|---------------------|
| Cash and cash equivalents   | \$ 3,277,552        | \$ 2,174,807        |
| Investments   | 24,377,049          | 23,180,620          |
| Promises to give  | 342,815             | 96,632              |
| Subtotal financial assets   | <u>27,997,416</u>   | <u>25,452,059</u>   |
| Less those unavailable for general expenditures within one year:                          |                     |                     |
| Funds with donor restrictions   | (2,316,860)         | (2,405,372)         |
| Board-designated funds  | (38,787)            | (26,060)            |
| Agency funds  | (4,299,003)         | (5,492,731)         |
| Donor-advised and other funds   | (19,389,919)        | (15,161,262)        |
| Financial assets available to meet cash needs for<br>general expenditures within one year | <u>\$ 1,952,847</u> | <u>\$ 2,366,634</u> |

Although the Foundation does not intend to spend from the Board-designated net assets (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), or funds designated for donor advisement, these amounts could be made available if necessary.



## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 5. Paycheck Protection Program Loans

Under the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Foundation applied for a Paycheck Protection Program (PPP) loan with the Small Business Administration (SBA) and received a loan of \$71,100 during the year ended June 30, 2020. The PPP loan had an interest rate of 1% per annum. The loan and related accrued interest were forgivable if the Foundation used the proceeds for eligible purposes. The Foundation was notified in March 2021 that the loan and accrued interest had been forgiven in full.

During the year ended June 30, 2021, the Foundation applied for and received an additional PPP loan in the amount of \$69,880. The PPP loan has an interest rate of 1% per annum and is due in March 2026. The loan and related accrued interest are forgivable if the proceeds are used for eligible purposes. The Foundation was notified in April 2022 that the loan and accrued interest had been forgiven in full.

#### Note 6. Agency Funds

Agency transactions or pass-through transactions are transfers of assets from contributors to the Foundation, which the Foundation in turn transfers to specific beneficiaries designated by the contributors.

Agency transactions during the years ended June 30, 2022 and 2021, were as follows:

|  | 2022         | 2021         |
|--|--------------|--------------|
| Agency funds payable:                                |              |              |
| Beginning  | \$ 5,492,731 | \$ 5,252,918 |
| Amounts received on behalf of others                 | 64,623       | 628,824      |
| Investment (losses) earnings related to agency funds | (666,153)    | 1,075,551    |
| Amounts provided to agencies                         | (544,255)    | (1,421,952)  |
| Management fees earned by the Foundation             | (47,943)     | (42,610)     |
| Ending   | \$ 4,299,003 | \$ 5,492,731 |

#### Note 7. Retirement Plan

The employees of the Foundation are covered by a 403(b) Tax Sheltered Annuity plan (the TSA Plan). Employees are eligible to participate in the TSA Plan on the first of the month following their hire date and after attaining the age of 21. The TSA Plan provides for an employer match of 100% of deferrals up to the first 3% of compensation and 50% of deferrals from over 3% to 5% of compensation. Employer contributions to the TSA Plan totaled \$21,120 and \$15,534 for the years ended June 30, 2022 and 2021, respectively.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2022 and 2021, were available for the following activities:

|  | 2022                | 2021                |
|--|---------------------|---------------------|
| Endowments:                                  |                     |                     |
| Scholarships                                 | \$ 1,362,984        | \$ 1,661,559        |
| Senior adults programs                       | 227,381             | 269,171             |
| Charitable organizations                     | 76,495              | 73,366              |
| Long-term support of Foundation              | -                   | 100,000             |
|  | <u>1,666,860</u>    | <u>2,104,096</u>    |
| Purpose restricted:                          |                     |                     |
| Shared Prosperity Initiative                 | -                   | 76,276              |
| American Cities                              | 125,000             | -                   |
| Long Bridge Park Aquatics and Fitness Center | 225,000             | 225,000             |
|  | <u>350,000</u>      | <u>301,276</u>      |
| Time restricted:                             |                     |                     |
| Promises to give                             | 300,000             | -                   |
| Total net assets with donor restrictions     | <u>\$ 2,316,860</u> | <u>\$ 2,405,372</u> |

Net assets were released from donor restriction during the years ended June 30, 2022 and 2021, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, and consisted of the following:

|                                     | 2022              | 2021              |
|-------------------------------------|-------------------|-------------------|
| Scholarships                        | \$ 60,216         | \$ 81,200         |
| Shared Prosperity Initiative        | 76,276            | 73,724            |
| Senior adults programs              | 3,357             | 2,719             |
| Charitable organizations            | 29,325            | 2,144             |
| Long-term support of the Foundation | 100,000           | 39                |
|                                     | <u>\$ 269,174</u> | <u>\$ 159,826</u> |

#### Note 9. Endowment and Board-Designated Funds

The Foundation's endowment includes both endowment funds with donor restrictions and funds designated by the Board of Trustees to function as quasi-endowments/Board-designated funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 9. Endowment and Board-Designated Funds (Continued)

**Interpretation of relevant law:** The Board of Trustees of the Foundation has interpreted Virginia's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The resulting amounts are reported as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with 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 Foundation 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 Foundation.
- The investment policies of the Foundation.

**Funds with deficiencies:** From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2022 and 2021.

**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 the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor specified periods, as well as Board-designated funds. Given the relationship between risk and return, a fundamental step in determining the investment policy for the endowment fund is the determination of an appropriate risk tolerance. After taking into consideration such factors as corporate financial stability, uncertainty of cash flows in and out of the endowment fund over the long term, and capital market volatility, the Board of Trustees believes that a moderate risk strategy is prudent. Under this policy, as approved by the Board of Trustees, the goal is to have stable returns over the long term, with a reduced potential of negative returns in any given year. The Foundation expects its endowment fund, over time, to provide an annual average rate of return of approximately 5%. 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). As a result, the Foundation has elected to adopt a diversified asset allocation consisting of primarily equity and fixed income securities. The Foundation has several investment options with the current asset allocation ranging from zero to 65% in equities and 25% to 100% in fixed income funds.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 9. Endowment and Board-Designated Funds (Continued)

**Spending policy and how the investment objectives relate to spending policy:** At year-end, the Foundation has a policy of distributing up to 5% of the moving average of the past 12 quarters' closing market value of the endowment investment. In establishing this policy, the Foundation considered the long-term expected return of its endowment.

The changes in endowment net assets for the years ended June 30, 2022 and 2021, are as follows:

|   |                            |
|---|----------------------------|
| Endowment net assets, June 30, 2020               | \$ 1,666,204               |
| Investment income                                 | 103,414                    |
| Contributions and other income (less agency)      | 26,780                     |
| Appropriation of endowment assets for expenditure | (86,063)                   |
| Net appreciation                                  | 393,761                    |
| Endowment net assets, June 30, 2021               | <u>2,104,096</u>           |
| Investment income                                 | 40,717                     |
| Contributions and other income (less agency)      | 41,918                     |
| Appropriation of endowment assets for expenditure | (92,898)                   |
| Net depreciation                                  | (326,973)                  |
| Release of restricted net assets                  | (100,000)                  |
| Endowment net assets, June 30, 2022               | <u><u>\$ 1,666,860</u></u> |

Endowment net assets at June 30, 2022 and 2021, are comprised of the following:

|                           | <u>2022</u>                | <u>2021</u>                |
|---------------------------|----------------------------|----------------------------|
| Scholarship funds         | \$ 1,362,984               | \$ 1,661,559               |
| Field of interest funds   | 227,381                    | 269,171                    |
| Designated funds          | 76,495                     | 73,366                     |
| Perpetual endowment funds | -                          | 100,000                    |
|                           | <u><u>\$ 1,666,860</u></u> | <u><u>\$ 2,104,096</u></u> |

Board-designated net assets totaled \$38,787 and \$20,060 for the years ended June 30, 2022 and 2021, respectively.

#### Note 10. Commitments and Contingencies

**Lease:** In October 2015, the Foundation renewed its existing office space lease. The lease agreement provides for initial monthly payments of \$3,083 with an annual escalation increase at a rate of 2.5%, expiring in September 2020. In August 2020, the Foundation extended the office lease for an additional 12-month term expiring on August 31, 2021. The lease called for monthly payments of \$3,489 starting on October 1, 2020. During 2021, the Foundation entered into a new lease commencing October 2021 with monthly base rent of \$6,102 and an annual escalation increase at a rate of 2.5%, which expires in December 2026. The lease contains monthly abatements of rent throughout the lease.

The Foundation also has an operating lease for office equipment, which called for monthly minimum payments of \$362. The lease was month-to-month beginning in July 2019. In June 2020, the Foundation entered into a new office equipment lease with a minimum monthly payment of \$284. The lease expires on August 31, 2026.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 10. Commitments and Contingencies (Continued)

A schedule of the future minimum lease payments under these noncancelable operating leases at June 30, 2022, is as follows:

|                       |    |                |
|-----------------------|----|----------------|
| Years ending June 30: |    |                |
| 2023                  | \$ | 59,249         |
| 2024                  |    | 76,827         |
| 2025                  |    | 78,739         |
| 2026                  |    | 78,137         |
| 2027                  |    | 40,920         |
|                       | \$ | <u>333,872</u> |

Rent expense for the years ended June 30, 2022 and 2021, was \$49,506 and \$41,615, respectively.

**PPP loan:** The SBA has the right to audit recipients of PPP loans for up to six years from the date of forgiveness. However, management does not believe a material risk exists related to the SBA's right to audit.

#### Note 11. Related-Party Transactions

During the years ended June 30, 2022 and 2021, management and members of the Board of Trustees contributed \$160,311 and \$360,981 to the Foundation, respectively.