

# **Arlington Community Foundation**

Financial Report  
June 30, 2023

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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, 2023 and 2022, 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, 2023 and 2022, 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  
January 31, 2024

**Arlington Community Foundation**

**Statements of Financial Position  
June 30, 2023 and 2022**

	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$ 6,308,889	\$ 3,277,552
Investments	23,423,175	24,377,049
Promises to give, net	317,815	342,815
Right-of-use asset for operating lease, net	250,331	-
Prepaid expenses and other assets	37,808	32,151
	<u>37,808</u>	<u>32,151</u>
<b>Total assets</b>	<b>\$ 30,338,018</b>	<b>\$ 28,029,567</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 12,151	\$ 18,715
Accrued expenses	54,990	49,323
Grants and scholarships payable	695,926	657,001
Lease liability for operating lease, net	254,003	-
Agency funds	4,700,970	4,299,003
	<u>4,700,970</u>	<u>4,299,003</u>
<b>Total liabilities</b>	<b>5,718,040</b>	<b>5,024,042</b>
Contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
Operating	1,030,387	1,259,959
Board-designated	49,039	38,787
Donor-advised and other funds	21,496,293	19,389,919
	<u>21,496,293</u>	<u>19,389,919</u>
<b>Total net assets without donor restrictions</b>	<b>22,575,719</b>	<b>20,688,665</b>
With donor restrictions	2,044,259	2,316,860
	<u>2,044,259</u>	<u>2,316,860</u>
<b>Total net assets</b>	<b>24,619,978</b>	<b>23,005,525</b>
	<u>24,619,978</u>	<u>23,005,525</u>
<b>Total liabilities and net assets</b>	<b>\$ 30,338,018</b>	<b>\$ 28,029,567</b>
	<u>\$ 30,338,018</u>	<u>\$ 28,029,567</u>

See notes to financial statements.

**Arlington Community Foundation**

**Statement of Activities  
Year Ended June 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	\$ 5,591,252	\$ 50,068	\$ 5,641,320
Management fees	43,065	-	43,065
Net assets released from restriction— management fees	25,045	(25,045)	-
Net assets released from restriction	477,742	(477,742)	-
<b>Total support and revenue</b>	<b>6,137,104</b>	<b>(452,719)</b>	<b>5,684,385</b>
Expenses:			
Program services:			
Community services	4,992,299	-	4,992,299
Supporting services:			
Management and general	241,728	-	241,728
Development and fundraising	400,288	-	400,288
<b>Total supporting services</b>	<b>642,016</b>	<b>-</b>	<b>642,016</b>
<b>Total expenses</b>	<b>5,634,315</b>	<b>-</b>	<b>5,634,315</b>
<b>Change in net assets before investment gain</b>	<b>502,789</b>	<b>(452,719)</b>	<b>50,070</b>
Investment gain, net	1,384,265	180,118	1,564,383
<b>Change in net assets</b>	<b>1,887,054</b>	<b>(272,601)</b>	<b>1,614,453</b>
Net assets:			
Beginning	20,688,665	2,316,860	23,005,525
Ending	<b>\$ 22,575,719</b>	<b>\$ 2,044,259</b>	<b>\$ 24,619,978</b>

See notes to financial statements.

**Arlington Community Foundation**

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

	Without Donor Restrictions	With Donor 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	\$ 20,688,665	\$ 2,316,860	\$ 23,005,525

See notes to financial statements.

**Arlington Community Foundation**

**Statement of Functional Expenses  
Year Ended June 30, 2023**

	<u>Supporting Services</u>				Total
	Community Services	Management and General	Development and Fundraising	Total Supporting Services	
Grants	\$ 3,059,957	\$ -	\$ -	\$ -	\$ 3,059,957
Salaries and fringe benefits	589,638	130,638	293,652	424,290	1,013,928
Advertising and publicity	-	12,082	-	12,082	12,082
Bank fees	-	16,670	-	16,670	16,670
Dues and subscriptions	7,424	1,646	3,698	5,344	12,768
Equipment rental and maintenance	5,742	1,273	2,860	4,133	9,875
Events	-	-	49,120	49,120	49,120
Insurance	-	5,440	-	5,440	5,440
Meetings and conferences	1,570	1,570	-	1,570	3,140
Occupancy	48,192	10,683	24,001	34,684	82,876
Office supplies	9,738	2,158	4,850	7,008	16,746
Postage and delivery	1,214	269	605	874	2,088
Printing and duplicating	2,301	510	1,146	1,656	3,957
Professional services	1,263,278	58,070	18,740	76,810	1,340,088
Taxes and licenses	266	59	133	192	458
Telephone	2,970	658	1,479	2,137	5,107
Travel	9	2	4	6	15
	<u>\$ 4,992,299</u>	<u>\$ 241,728</u>	<u>\$ 400,288</u>	<u>\$ 642,016</u>	<u>\$ 5,634,315</u>

See notes to financial statements.



**Arlington Community Foundation**

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

	Supporting Services				Total
	Community Services	Management and General	Development and Fundraising	Total Supporting 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
	\$ 4,346,126	\$ 227,991	\$ 312,607	\$ 540,598	\$ 4,886,724

See notes to financial statements.

## Arlington Community Foundation

### Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 1,614,453	\$ 4,075,668
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(1,042,922)	3,987,649
Endowment cash receipts	(20,068)	(41,918)
Gain on forgiveness of Paycheck Protection Program loan	-	(69,880)
Amortization of operating lease right-of-use assets	67,081	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	25,000	(246,183)
Prepaid expenses and other assets	(5,657)	(10,718)
Increase (decrease) in:		
Accounts payable	(6,564)	(41,904)
Accrued expenses	5,667	1,793
Grants and scholarships payable	38,925	(215,874)
Agency funds	401,967	(1,193,728)
Operating lease liabilities	(63,409)	-
<b>Net cash provided by operating activities</b>	<b>1,014,473</b>	<b>6,244,905</b>
Cash flows from investing activities:		
Proceeds from sale of investments	16,996,693	5,725,300
Purchases of investments	(14,999,897)	(10,909,378)
<b>Net cash provided by (used in) investing activities</b>	<b>1,996,796</b>	<b>(5,184,078)</b>
Cash flows from financing activities:		
Endowment cash receipts	20,068	41,918
<b>Net cash provided by financing activities</b>	<b>20,068</b>	<b>41,918</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,031,337</b>	<b>1,102,745</b>
Cash and cash equivalents:		
Beginning	3,277,552	2,174,807
Ending	\$ 6,308,889	\$ 3,277,552
Supplemental disclosures of cash flow information:		
Operating cash outflows—payments on operating leases	\$ 71,548	\$ -
Addition to right-of-use asset for operating lease at Accounting Standards Codification Topic 842 adoption	\$ 317,412	\$ -
Addition to operating lease liability at Accounting Standards Codification Topic 842 adoption	\$ 317,412	\$ -

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. At June 30, 2023, \$201,000 is considered current, and \$116,815 will be received over the next two years. At June 30, 2022, \$86,000 is considered current, and \$256,815 will be received over the next three years.

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, 2023 and 2022. Receivables are written off when they are deemed uncollectible.

## Arlington Community Foundation

### Notes to Financial Statements

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

**Operating right-of-use lease assets:** Operating right-of-use (ROU) assets represent the right to use an underlying asset and consist of the initial lease liability, any payments made to the lessor at or before the commencement date, minus any incentives received and initial direct costs. Operating ROU assets are amortized over the remaining lease term as lease costs based on the straight-line rent expense working in conjunction with the amortization of the related lease liability.

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

**Operating lease liabilities:** Lease liabilities are recognized at the present value of all lease payments in using a risk-free rate comparable with that of the individual lease terms.

**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, 2023 and 2022, 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, 2023 and 2022, the Foundation received approximately \$883,500 and \$4,902,000, 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.

## 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, 2023 and 2022, the Foundation did not recognize income tax expense in the accompanying financial statements, as there was no unrelated business taxable income.

**Recently adopted accounting pronouncement:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. The ASU requires lessees to recognize most leases on their statement of financial position as a 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 statement of activities. The Foundation adopted Topic 842 on July 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 July 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 July 1, 2022.

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 material 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 July 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 nonpublic 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).

## Arlington Community Foundation

### Notes to Financial Statements

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

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 nonlease components in its contracts as separate lease components for any real estate, vehicle or equipment asset classes. The nonlease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Foundation's operating lease of \$317,412 each at July 1, 2022. The adoption of the new lease standard did not materially impact change in net assets or cash flows, and did not result in a cumulative-effect adjustment to the opening balance of net assets.

**Subsequent events:** The Foundation has evaluated subsequent events through January 31, 2024, the date on which the financial statements were available to be issued.

#### **Note 2. Concentrations**

**Support concentration:** For the year ended June 30, 2023, one donor provided approximately 27% of total support and revenue. For the year ended June 30, 2022, two donors provided approximately 67% 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.

## Arlington Community Foundation

### Notes to Financial Statements

#### Note 3. Investments (Continued)

Investments consisted of the following at June 30, 2023:

	Total	Level 1	Level 2	Level 3
Investments at fair value:				
Mutual funds/ETF—equity	\$ 10,442,300	\$ 10,442,300	\$ -	\$ -
Mutual funds/ETF—fixed income	5,814,018	5,814,018	-	-
Equities	3,977,988	3,977,988	-	-
Fixed income—U.S. Treasury bonds	3,188,869	-	3,188,869	-
Total investments at fair value	<u>\$ 23,423,175</u>	<u>\$ 20,234,306</u>	<u>\$ 3,188,869</u>	<u>\$ -</u>

Investments consisted of the following at June 30, 2022:

	Total	Level 1	Level 2	Level 3
Investments at fair value:				
Mutual funds/ETF—equity	\$ 8,690,923	\$ 8,690,923	\$ -	\$ -
Mutual funds/ETF—fixed income	9,361,718	9,361,718	-	-
Equities	6,324,408	6,324,408	-	-
Total investments at fair value	<u>\$ 24,377,049</u>	<u>\$ 24,377,049</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income (loss) for the years ended June 30, 2023 and 2022, is comprised of the following:

	2023	2022
Interest and dividends	\$ 749,302	\$ 696,286
Net realized and unrealized gain (loss)	1,282,793	(4,764,932)
Investment management fees	(103,129)	(84,764)
	<u>1,928,966</u>	<u>(4,153,410)</u>
Investment (losses) earnings related to agency funds	(364,583)	666,153
Total	<u>\$ 1,564,383</u>	<u>\$ (3,487,257)</u>

Management fees for the year ended June 30, 2023, totaled \$327,824, of which \$43,076 was related to the agency funds, and \$284,759 was related to the donor-advised, field of interest and scholarship funds.

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.



## Arlington Community Foundation

### Notes to Financial Statements

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#### 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, 2023 and 2022, are as follows:

	2023	2022
Cash and cash equivalents	\$ 6,308,889	\$ 3,277,552
Investments	23,423,175	24,377,049
Promises to give, net	317,815	342,815
Subtotal financial assets	30,049,879	27,997,416
Less those unavailable for general expenditures within one year:		
Funds with donor restrictions	(2,044,259)	(2,316,860)
Board-designated funds	(49,039)	(38,787)
Agency funds	(4,700,970)	(4,299,003)
Donor-advised and other funds	(21,496,293)	(19,389,919)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,759,318</u>	<u>\$ 1,952,847</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.

#### Note 5. 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, 2023 and 2022, were as follows:

	2023	2022
Agency funds payable:		
Beginning	\$ 4,299,003	\$ 5,492,731
Amounts received on behalf of others	809,343	64,623
Investment earnings (losses) related to agency funds	364,583	(666,153)
Amounts provided to agencies	(728,883)	(544,255)
Management fees earned by the Foundation	(43,076)	(47,943)
Ending	<u>\$ 4,700,970</u>	<u>\$ 4,299,003</u>

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 6. 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 \$24,464 and \$21,120 for the years ended June 30, 2023 and 2022, respectively.

#### Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions for the years ended June 30, 2023 and 2022, were available for the following activities:

	2023	2022
Endowments:		
Scholarships	\$ 1,436,069	\$ 1,362,984
Senior adults programs	249,192	227,381
Charitable organizations	78,998	76,495
	<u>1,764,259</u>	<u>1,666,860</u>
Purpose restricted:		
American Cities	125,000	125,000
Long Bridge Park Aquatics and Fitness Center	-	225,000
	<u>125,000</u>	<u>350,000</u>
Time restricted:		
Promises to give	155,000	300,000
Total net assets with donor restrictions	<u>\$ 2,044,259</u>	<u>\$ 2,316,860</u>

Net assets were released from donor restriction during the years ended June 30, 2023 and 2022, by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by donors, and consisted of the following:

	2023	2022
Scholarships	\$ 76,347	\$ 60,216
Shared Prosperity Initiative	-	76,276
Senior adults programs	2,942	3,357
Charitable organizations	23,498	29,325
American Cities	125,000	-
Long Bridge Park Aquatics and Fitness Center	225,000	-
Long-term support of the Foundation	-	100,000
Time restricted	50,000	-
	<u>\$ 502,787</u>	<u>\$ 269,174</u>

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 8. 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.

**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, 2023 and 2022.

**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.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 8. Endowment and Board-Designated Funds (Continued)

**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.

**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, 2023 and 2022, are as follows:

Endowment net assets, June 30, 2021	\$ 2,104,096
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>1,666,860</u>
Investment income	34,861
Contributions and other income (less agency)	20,068
Appropriation of endowment assets for expenditure	(102,787)
Net appreciation	145,257
Endowment net assets, June 30, 2023	<u><u>\$ 1,764,259</u></u>

Endowment net assets at June 30, 2023 and 2022, are comprised of the following:

	<u>2023</u>	<u>2022</u>
Scholarship funds	\$ 1,436,069	\$ 1,362,984
Senior adults programs	249,192	227,381
Charitable organizations	78,998	76,495
	<u><u>\$ 1,764,259</u></u>	<u><u>\$ 1,666,860</u></u>

Board-designated net assets totaled \$49,039 and \$38,787 for the years ended June 30, 2023 and 2022, respectively.

#### Note 9. Leases

In October 2021, the Foundation entered into a new lease for its existing office space 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.

Operating lease cost is recognized on a straight-line basis over the lease term. Operating lease cost was the sole component of lease expense during the year ended June 30, 2023, and totaled \$75,220.

## Arlington Community Foundation

### Notes to Financial Statements

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#### Note 9. Leases (Continued)

Supplemental statement of financial position information related to leases is as follows:

	<u>2023</u>
Weighted-average remaining lease term (in years)	3.50
Weighted-average discount rate	2.88%

Future undiscounted cash flows for each of the next four years, as determined under Topic 842, and reconciliation to the lease liability recognized on the statement of financial position as of June 30, 2023, is as follows:

Years ending June 30:	
2024	\$ 73,413
2025	75,325
2026	77,284
2027	<u>40,919</u>
Total lease payments	266,941
Discount to net present value	<u>(12,938)</u>
Discounted lease liability	<u><u>\$ 254,003</u></u>

Future minimum noncontingent lease payments, as determined under Topic 840, are as follows as of June 30, 2022:

Years ending June 30:	
2023	\$ 55,835
2024	73,413
2025	75,325
2026	77,284
2027	<u>40,919</u>
	<u><u>\$ 322,776</u></u>

#### Note 10. Contingencies

**Paycheck Protection Program (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, 2023 and 2022, management and members of the Board of Trustees contributed \$228,918 and \$160,311 to the Foundation, respectively.