ROSSLYN BUSINESS IMPROVEMENT CORPORATION

FINANCIAL STATEMENTS

Including Independent Auditors' Report

Year Ended June 30, 2019

Rosslyn Business Improvement Corporation

Financial Statements

Year Ended June 30, 2019

Contents

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Independent Auditors' Report

To the Board of Directors of
Rosslyn Business Improvement Corporation

We have audited the accompanying financial statements of Rosslyn Business Improvement Corporation (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rosslyn Business Improvement Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to that matter.

Toole Katz & Roemersma, LLP

Arlington, Virginia
October 10, 2019

ROSSLYN BUSINESS IMPROVEMENT CORPORATION

Statement of Financial Position

June 30, 2019

Assets		
Current Assets		
Cash and cash equivalents	$	922,658
Accounts receivable		6,232
Due from County		4,831
Prepaid expenses		40,894
Total current assets		974,615
Property and Equipment, net		208,995
Total Assets	$	1,183,610
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$	220,124
Due to County		25,566
Total current liabilities		245,690
Deferred Rent		91,919
Deferred Compensation		8,149
Total Liabilities		345,758
Total Net Assets Without Donor Restrictions		837,852
Total Liabilities and Net Assets	$	1,183,610

See accompanying notes.

ROSSLYN BUSINESS IMPROVEMENT CORPORATION

Statement of Activities

Year Ended June 30, 2019

Operating Activities		
Support and contract revenue		
Arlington County funds	$	3,569,067
Arlington County administrative fee		72,709
Interest income		2,993
Other income		74,055
Total support and contract revenue		3,718,824
Expenses		
Marketing and promotion		632,498
Operational services		920,283
Economic development		353,606
Public realm improvements		500,855
Community activities		621,460
Management and general		601,165
Total expenses		3,629,867
Change in Net Assets Without Donor Restrictions from Operations		88,957
Net Assets Without Donor Restrictions, beginning of year		748,895
Net Assets Without Donor Restrictions, end of year	$	837,852

See accompanying notes.

ROSSLYN BUSINESS IMPROVEMENT CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Activities							
	Marketing and Promotion	Operational Services	Economic Development	Public Realm Improvements	Community Activities	Total Program Expenses	Management and General	Total Expenses
Contracts	$ 126,000	$ 615,688	$ -	$ 29,725	$ -	$ 771,413	$ -	$ 771,413
Services, supplies, and equipment	275,316	96,147	28,195	276,081	416,318	1,092,057	17,848	1,109,905
Salaries, wages, and benefits	231,182	187,924	325,411	187,598	190,047	1,122,162	221,343	1,343,505
Rent and utilities	-	20,524	-	-	-	20,524	117,695	138,219
Office expense	-	-	-	-	-	-	52,938	52,938
Insurance	-	-	-	-	15,095	15,095	7,833	22,928
Depreciation	-	-	-	7,451	-	7,451	30,051	37,502
County administration fee	-	-	-	-	-	-	72,709	72,709
Professional fees	-	-	-	-	-	-	80,748	80,748
Total Expenses	$ 632,498	$ 920,283	$ 353,606	$ 500,855	$ 621,460	$ 3,028,702	$ 601,165	$ 3,629,867

See accompanying notes.

ROSSLYN BUSINESS IMPROVEMENT CORPORATION

Statement of Cash Flows

Year Ended June 30, 2019

Cash Flows from Operating Activities		
Increase in net assets	$	88,957
Reconciliation adjustments		
Depreciation		37,502
Deferred rent		4,813
Changes in:		
Accounts receivable		(6,232)
Prepaid expenses		(14,536)
Accounts payable and accrued expenses		27,139
Due to County, net		63,003
Deferred compensation		8,149
Net cash provided by operating activities		208,795
Cash Flows from Investing Activities		
Purchase of property and equipment		(8,515)
Net Increase in Cash and Cash Equivalents		200,280
Cash and Cash Equivalents, beginning of year		722,378
Cash and Cash Equivalents, end of year	$	922,658

See accompanying notes.

NOTE 1 - ORGANIZATION

Rosslyn Business Improvement Corporation (the "Organization") was founded in 2003, as a Virginia non-stock corporation. The Organization was established to administer on behalf of the County Board of Arlington County, Virginia (the "County Board") the Rosslyn Business Improvement Service District (the "BID"), established by the County Board in 2003. The BID is located in the Rosslyn section of Arlington County, Virginia. Under work plans and budgets submitted by the Organization and approved by the County Board, the Organization provides and promotes services pursuant to Arlington County ordinance as adopted by the County Board effective July 1, 2003 and extended in perpetuity on September 8, 2007. They include, but are not limited to "economic development, business recruitment, and retention; marketing; street and sidewalk cleaning; landscaping and beautification of the public areas; visitor informational facilities and services; community outreach; social, entertainment, and other events and activities; pedestrian and traffic improvements; public parking; signage; and transportation services serving the district."

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Principle - In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The Organization adopted ASU 2016-14 effective July 1, 2018.

The ASU appends the current reporting model for not-for-profit organizations and enhances their required disclosures. The primary changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all not-for-profits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocations methods used to allocate costs, and (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources.

Basis of Presentation - The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> **Net assets without donor restrictions**: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions may be temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recent Accounting Pronouncements - In May 2014, the FASB issued ASU No. 2014-09, *Revenues from Contracts with Customers (Topic 606)* and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASU No. 2014-09 is effective for annual reporting periods in fiscal years that begin after December 15, 2018. The Organization is currently evaluating the effect that ASU No. 2014-09 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their statement of financial position as liabilities, with corresponding “right-of-use” assets. The standard is effective for annual reporting periods in fiscal years that begin after December 15, 2019. The Organization is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify the guidance in Topic 958 on how entities determine whether to account for a transfer of assets as an exchange transaction under other guidance or a contribution. The ASU will be effective for annual periods beginning after December 15, 2018 for resource recipients and annual periods beginning after December 31, 2019 for resource providers. Earlier adoption is permitted. The Organization is currently evaluating the effect that ASU No. 2018-08 will have on its financial statements.

Cash and Cash Equivalents - The term cash and cash equivalents, as used in the accompanying financial statements, include currency on hand, demand deposits with financial institutions, and short-term, highly liquid investments purchased with a maturity of three months or less. The Organization maintains cash in certain bank deposit accounts, which at times may exceed federally insured limits. Non-interest bearing accounts are aggregated with any interest bearing deposits and the combined total is guaranteed by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts Receivables - Receivables are recorded at net realizable value. Management determines the collectability of accounts receivable and the need for an allowance for doubtful accounts based on historical experience and the existing economic conditions. Management has evaluated the collectability of accounts receivable and determined that no allowance for doubtful accounts is necessary at June 30, 2019. No interest is charged on accounts receivable and accounts are written off at the point management deems them to be uncollectible, which is once such accounts have been outstanding for one year.

Property and Equipment - Property and equipment are capitalized at cost and are depreciated using the straight-line method. Property and equipment are capitalized and depreciated over the estimated useful lives, which range from three to ten years. Leasehold improvements are capitalized and depreciated on a straight-line basis over the shorter of the estimated useful lives of the improvements or the terms of the respective lease. Expenditures for maintenance and repairs and minor betterments that do not extend the lives of the assets are charged to expenses as incurred. Major expenditures which extend the lives of the assets are capitalized.

Revenue Recognition - Revenue is recognized when earned and support revenue is recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization. The Organization’s primary source of revenue is from BID assessments levied by Arlington County (the “County”) on real property located within the BID pursuant to a County Board approved budget for the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - The Organization is exempt from federal and Virginia income tax as an organization described in Section 501(c)(6) of the Internal Revenue Code ("IRC"). However, the Organization is liable for income taxes on any unrelated business income. There was no unrelated net business taxable income for the year ended June 30, 2019.

The tax effects from an uncertain tax position can be recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Organization applies the accounting standard to all tax positions for which the statute of limitations remained open. As a result, the Organization did not identify any material uncertain tax positions.

The Organization recognizes interest and penalties related to uncertain tax positions in management and general expenses. For the year ended June 30, 2019, the Organization has not recognized any interest or penalties in its statement of activities. The Organization is no longer subject to federal, state, or local income tax examinations by tax authorities for the years prior to the fiscal year ended June 30, 2016. The Organization is not currently under examination by any taxing jurisdiction.

Marketing and Promotion - Marketing and promotion costs are expensed as incurred. Marketing and promotion expense for the year ended June 30, 2019 was $632,498.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Allocation of Expenses - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and rent and utilities, which are allocated on a square-footage basis, and salaries, wages, and benefits, which are allocated on the basis of estimates of time and effort.

Subsequent Events - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through the report date, the date the accompanying financial statements were available to be issued.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019:

Furniture and equipment	$	338,484
Vehicles		41,506
Leasehold improvements		12,009
Website development costs		39,770
		431,769
Less: accumulated depreciation		(222,774)
Property and equipment, net	$	208,995

Depreciation expense for the year ended June 30, 2019 totaled $37,502.

NOTE 4 - SERVICE AGREEMENT

On June 23, 2003, the Organization entered into a Service Agreement (the "Agreement") with the County Board to provide services in the BID. The Agreement was to run from July 1, 2003 through June 30, 2008. The Agreement was amended and restated as of September 9, 2007 to extend the term of the service agreement indefinitely. The Agreement allows for termination under the following circumstances: (a) the County's failure to approve work program, budget or tax levy, (b) the Organization's default of performance, (c) a vote by the Organization's membership to dissolve, and (d) the County's termination of the BID. Should the Organization cease to exist, any funds advanced from the County to the Organization, but unspent, would revert back to the County.

Under the Agreement, the Organization will provide agreed upon services to enhance and supplement County services provided in the BID, and the County will provide funding through collection from property owners of an annual assessment on property located within the BID. The Agreement provides that the County will receive an administrative fee equal to 1.0 percent of the funds collected. For the year ended June 30, 2019, the administrative fee was increased to 2.0 percent of the funds collected. The increase was approved by the Company's Executive Committee in January 2018. In addition, the Agreement stipulates that the County shall hold a reserve, initially funded at up to 2.5 percent of the funds collected per fiscal year, provided that the reserve amount required to be carried by the Organization is capped at 5.0 percent of the BID's projected revenues from the BID tax levy for any fiscal year. This fund is set aside to handle delinquencies and successful appeals of the annual real property assessments. The reserve is held and controlled by the County and, therefore, is not included in the accompanying financial statements. The Organization's June 30, 2019 reserve balance was $161,036. The accompanying statement of financial position includes $25,566 due to the County, in order to meet the reserve funding requirement.

The September 9, 2007 amended and restated Agreement states that the County shall calculate interest on the reserve. The County applies interest earnings to the reserve before the close of each fiscal year. Interest is calculated using the County's average rate for investment earnings for the fiscal year. The County's average rate for investments earnings was 2.13 percent for the fiscal year ended June 30, 2019. For the fiscal year ended June 30, 2019, the County calculated interest amounted to $4,831. The interest earned and due from the County on the reserve is included in due from County on the accompanying statement of financial position.

The Organization's annual operating budget for a fiscal year must be approved by the County Board prior to release of any funds for that fiscal year. The fiscal year ended June 30, 2020 work program and budget of $3,938,338 were submitted and approved by the County in April 2019.

Under the Agreement, funds generated from the County's BID assessments for a fiscal year and allocated in the Organization's approved budget for a fiscal year, but not expended in accordance with the approved budget, will be reserved and carried forward.

NOTE 5 - RETIREMENT PLAN

In January 2004, the Organization instituted a 401(k) Plan covering employees who have at least three months service, 1,000 hours of annual work service, and are at least 21 years of age. Employees can make voluntary contributions up to the maximum allowed by the Internal Revenue Service. The Organization will match employee contributions up to 6 percent of the employee's annual salary. The total employer matching contributions and plan expenses for the fiscal year ended June 30, 2019 were $50,962.

NOTE 6 - LEASE AGREEMENT

On September 30, 2003, the Organization entered into a lease for 2,764 square feet of office space in Rosslyn, Virginia. The lease was for a 51-month term commencing April 1, 2004 and ending June 30, 2008. On May 13, 2008, the lease was amended to include expansion space of 1,053 square feet of rentable area, commencing July 2008, and the term of the lease was extended until June 30, 2011. On June 17, 2011, the lease was further extended through June 30, 2016 with a provision that either party may terminate the term of the lease after notice effective at any time after December 31, 2012. On July 28, 2015, the term of the lease was extended through October 31, 2026. Monthly rent payments due under the lease extension are $10,179 and increase 3 percent annually.

Future minimum lease payments under the current lease are as follows:

Year ending June 30, 2020	$	133,480
2021		137,488
2022		141,611
2023		145,848
2024		150,237
Thereafter		368,862
	$	1,077,526

The Organization recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent consists of the excess of rental expenses on a straight-line basis over the payments required by the lease. As of June 30, 2019, the deferred rent liability was $91,919. Office space rent expense for the year ended June 30, 2019 was $138,219.

NOTE 7 - CLEAN AND SAFE PROGRAM

A major component of the operational services is the Clean and Safe Program that is provided in agreement with Block by Block, LLC. On November 21, 2007, the Organization entered into an 18-month agreement with Block by Block, LLC to provide cleaning and safety management services in the BID through the operation of a Clean and Safe Program from January 1, 2008 through June 30, 2009 with the option for two one-year extensions through June 30, 2011. The Organization exercised these options. On April 26, 2011, the Organization extended the agreement to June 30, 2012. On March 15, 2012, the Board of Directors negotiated a three-year contract extension with Block by Block, LLC to June 30, 2015. On June 1, 2015, the Organization executed an interim extension through August 31, 2015. On September 1, 2015 the Organization executed a ten month contract extension to June 30, 2016, with two one-year extension options through June 30, 2018. On July 1, 2018, the Organization executed a twelve month contract extension to June 30, 2019. On July 1, 2019, the Organization executed a twelve month contract extension to June 30, 2020. The cost of operations of the program for the year ended June 30, 2019 was $615,688 and is included in operational services in the accompanying statements of activities and functional expenses.

NOTE 8 - DEFERRED COMPENSATION AGREEMENT

On July 1, 2018, the Organization established a nonelective, nonqualified deferred compensation plan for the benefit of a key employee, the President of the Organization (the “Participant”), known as the Rosslyn Business Improvement Corporation, Section 457(f) Deferred Compensation Plan (the “Plan”). The Plan is intended to be an unfunded and unsecured, nonelective, nonqualified deferred compensation plan maintained by the Organization primarily for the purpose of providing deferred compensation for the Participant.

NOTE 8 - DEFERRED COMPENSATION AGREEMENT - CONTINUED

In order to defer compensation under the Plan, Participant shall be required to perform five years of continuous service, beginning July 1, 2018 and extending through June 30, 2023. In accordance with the Plan provisions, the Organization shall establish an unfunded, bookkeeping account known as the "Deferred Compensation Account" in the name of the Participant. Neither the Plan nor the Deferred Compensation Account shall hold or be required to hold any actual funds or assets. The Organization shall credit the Deferred Compensation Account with an amount equal to a minimum of $10,000 on June 30, 2019 ("Initial Credit Date") and on each of the succeeding four anniversaries of the Initial Credit Date, for a total minimum of $50,000. The deferred compensation amounts are accrued when earned and distributable in cash in accordance with the Plan. The deferred compensation liability is recorded at the present value of the future benefits. Deferred compensation expense for the year ended June 30, 2019 was $8,149. As of June 30, 2019, the deferred compensation liability was $8,149.

In accordance with the Plan, the Board of Directors of the Organization, may, at any time and from time to time, in its sole discretion, credit the Participant's Deferred Compensation Account with additional discretionary amounts. Participant shall be considered to be vested in amounts credited to the Deferred Compensation Account to the extent such amounts are not subject to a Substantial Risk of Forfeiture, as defined in the Plan, and in accordance with the Plan's vesting schedule. Participant shall be one-hundred percent vested following five years of continuous service. The amounts of Deferred Compensation shall vest on June 30, 2023.

Should there occur a separation from service by the Participant prior to the earliest of (a) the vesting date, (b) the date the Participant becomes disabled or (c) the date of Participant's death, the Participant shall forfeit the entire value (or the unvested remainder) of Participant's Deferred Compensation Account. In all other cases, the Participant's Deferred Compensation Account shall not be subject to forfeiture.

NOTE 9 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has $933,721 available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash and cash equivalents of $922,658, accounts receivable of $6,232, and amounts due from County of $4,831. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Organization has a goal to maintain financial assets, which primarily consist of cash on hand to meet 30 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The majority of the Organization's funding comes from the County through the collection of annual assessments from property owners. Approximately 54 percent of the total billed by the County is remitted to the Organization in July of every fiscal year, with the rest of the funds remitted in December. The Organization adheres to a strict annual operating budget. These factors make the Organization less susceptible to unanticipated liquidity needs.