

DIVERSITY RICHMOND

Financial Statements

December 31, 2015 and 2014

doing business as

Diversity Thrift

Diversity Bingo

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Steve Walls & Associates, PLLC

11541 Nuckols Rd., Ste. A, Glen Allen, VA 23059



Independent Auditor's Report

To the Board of Directors
Diversity Richmond
Richmond, Virginia

We have audited the accompanying financial statements of Diversity Richmond (hereafter "the Organization") which are comprised of the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, statements of functional expenses, and the statements of cash flows for the years then ended and the related notes to the financial statements (collectively hereafter the "financial statements").

Management's Responsibility for the Financial Statements

Management of the Organization 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. 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.

(continued)

Independent Auditor's Report – continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and 2014, 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.

Steve Waller & Associates, PLLC

September 8, 2016



Diversity Richmond

Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 202,159	\$ 211,375
Cash and cash equivalents - Board designated	234,533	156,778
Total cash and cash equivalents	436,692	368,153
Certificate of deposit (note 4)	-	75,000
Accounts receivable	999	3,816
Thrift store inventory	58,622	59,082
Total current assets	496,313	506,051
Property and equipment, net (note 3)	1,823,326	1,894,896
Other assets	11,448	15,668
Total assets	<u>\$ 2,331,087</u>	<u>\$ 2,416,615</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 17,449	\$ 37,253
Bingo prizes payable	3,740	28,885
Deposits held	9,612	7,500
Current portion of long-term debt (note 4)	79,616	76,438
Total current liabilities	110,417	150,076
Long-term liabilities		
Long-term portion of debt (note 4)	1,001,186	1,080,816
Total liabilities	1,111,603	1,230,892
Net assets		
Unrestricted	1,218,765	1,183,081
Temporarily restricted	719	2,642
Total net assets	1,219,484	1,185,723
Total liabilities and net assets	<u>\$ 2,331,087</u>	<u>\$ 2,416,615</u>

See accompanying notes to financial statements.

Diversity Richmond

Statements of Activities and Changes in Net Assets
Years ended December 31, 2015 and 2014

	2015	2014
Revenues		
Thrift store sales, net	\$ 778,991	\$ 775,648
Bingo revenues, net of direct expenses	74,932	150,356
Contributions	25,668	27,185
Events revenue	2,424	3,753
Interest income	280	183
Other income	6,188	39,040
Rental income - Billboard	54,655	50,807
Rental income - Events Hall	59,653	74,100
Rental income - Other	1,175	835
Net assets released from temporary restrictions	1,923	3,103
Total revenues	<u>1,005,889</u>	<u>1,125,010</u>
Expenses		
Program services	793,764	830,995
Management and general	139,135	98,045
Fundraising	39,229	53,375
Total expenses	<u>972,128</u>	<u>982,415</u>
Change in net assets	33,761	142,595
Net assets, beginning of year	<u>1,185,723</u>	<u>1,043,128</u>
Net assets, end of year	<u><u>\$ 1,219,484</u></u>	<u><u>\$ 1,185,723</u></u>

See accompanying notes to financial statements.

Diversity Richmond

Statement of Functional Expenses

Year ended December 31, 2015

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 349,005	\$ 97,081	\$ 27,320	\$ 473,406
Payroll taxes	33,838	4,806	2,438	41,082
Employee benefits and other	41,105	5,045	3,852	50,002
Total salaries and related expenses	423,948	106,932	33,610	564,490
Advertising	7,313	2,338	-	9,651
Conferences and meetings	4,745	-	-	4,745
Depreciation and amortization (note 3)	40,958	2,199	439	43,596
Events	3,267	2,068	-	5,335
Grants and contributions	27,136	-	-	27,136
Insurance	12,549	673	538	13,760
Interest (note 4)	43,373	2,455	466	46,294
Loss on disposal of property	11,286	600	121	12,007
Maintenance and repairs	62,608	3,276	655	66,539
Merchant account fees	27,408	-	-	27,408
Office	18,385	3,563	2,489	24,437
Other	9,269	1,622	128	11,019
Professional fees	14,062	9,258	-	23,320
Taxes and licenses (note 3)	13,352	941	142	14,435
Utilities	61,336	3,206	641	65,183
Vehicle	12,769	4	-	12,773
Total functional expenses	\$ 793,764	\$ 139,135	\$ 39,229	\$ 972,128

See accompanying notes to financial statements.

Diversity Richmond

Statement of Functional Expenses
Year ended December 31, 2014

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 384,811	\$ 54,524	\$ 26,406	\$ 465,741
Payroll taxes	32,941	4,471	2,141	39,553
Employee benefits and other	43,659	1,452	6,625	51,736
Total salaries and related expenses	461,411	60,447	35,172	557,030
Advertising	5,150	-	-	5,150
Conferences and meetings	2,241	2,677	-	4,918
Depreciation and amortization (note 3)	38,021	2,089	1,671	41,781
Events	-	-	5,472	5,472
Grants and contributions	61,476	-	-	61,476
Insurance	11,934	656	525	13,115
Interest (note 4)	44,478	2,444	1,955	48,877
Maintenance and repairs	53,090	3,329	2,663	59,082
Merchant account fees	28,490	-	7	28,497
Office	18,244	3,149	2,585	23,978
Other	8,355	1,436	169	9,960
Professional fees	11,293	17,874	-	29,167
Taxes and licenses (note 3)	12,524	688	551	13,763
Utilities	59,258	3,256	2,605	65,119
Vehicle	15,030	-	-	15,030
Total functional expenses	\$ 830,995	\$ 98,045	\$ 53,375	\$ 982,415

See accompanying notes to financial statements.

Diversity Richmond

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 33,761	\$ 142,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	77,469	75,429
Loss on disposal of property	12,007	-
(Increase) decrease in operating assets:		
Accounts receivable	2,817	2,407
Thrift store inventory	460	1,056
Other assets	1,405	4,331
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(19,804)	(54,071)
Bingo prizes payable	(25,145)	(2,103)
Deposits held	2,112	2,475
Net cash provided by operating activities	<u>85,082</u>	<u>172,119</u>
Cash Flows From Investing Activities		
Proceeds from maturity of certificate of deposit	75,000	-
Purchases of property and equipment	<u>(15,091)</u>	<u>(82,328)</u>
Net cash provided (used) by investing activities	<u>59,909</u>	<u>(82,328)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	<u>(76,452)</u>	<u>(73,504)</u>
Net cash used by financing activities	<u>(76,452)</u>	<u>(73,504)</u>
Increase in cash and cash equivalents	68,539	16,287
Cash and cash equivalents, beginning of year	<u>368,153</u>	<u>351,866</u>
Cash and cash equivalents, end of year	<u><u>\$ 436,692</u></u>	<u><u>\$ 368,153</u></u>

See accompanying notes to financial statements.

Diversity Richmond

Notes to Financial Statements

Note 1—Purpose of the Organization

Diversity Richmond, formerly known as the Richmond Gay Community Foundation, ("the Organization") is a non-profit corporation established under the laws of the Commonwealth of Virginia. The Organization is nonpartisan and its mission is to improve the lives of lesbian, gay, bisexual, and transgender people. The Organization raises funds through the operation of a thrift shop (doing business as *Diversity Thrift*) and bingo games (doing business as *Diversity Bingo*) at its facilities in Richmond, Virginia.

Note 2—Summary of Significant Accounting Policies

Financial Statement Presentation: The Organization's financial statements follow the Financial Accounting Standards Board Accounting Standards Codification (Codification) Topic 958, *Not-for-Profit Entities*. Under Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization does not maintain permanently restricted net assets. Throughout the year, the Organization receives pledges from donors for specific program purposes. Generally speaking, the form and content of these pledge agreements do not meet the criteria established by Topic 958 to record these pledge agreements as receivables. Accordingly, such pledge agreements are recorded as revenues in the accompanying statements of activities and changes in net assets upon receipt. As of December 31, 2015 the Organization had \$4,500 of such pledge agreements which are due \$1,500 per year through 2018. As of December 31, 2015 and 2014, the Organization maintained \$719 and \$2,642, respectively, in temporarily restricted net assets to be used for program purposes.

Thrift Store Inventory: The Organization receives contributions of goods (inventory) and processes these contributions as merchandise available for sale in its retail thrift store. Accounting principles generally accepted in the United States of America ("GAAP") require that contributions received be recognized as revenues in the period received and as assets or decreases of liabilities or expenses depending on the form of the benefits received. Contributions are measured at their estimated fair value.

The Organization believes that the inventory of contributed goods does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the Organization's value-added processes that prepare the donated inventory for sale that the donated inventory derives its value. Accordingly, inventory quantities are valued at year-end and the difference between year-end inventory valuations is included in the statements of activities and changes in net assets with "Thrift store sales, net".

Note 2—Summary of Significant Accounting Policies (continued)

Tax Matters: As evidenced by its tax determination letter dated April 26, 2004, the Organization is exempt from Federal income tax under Sections 501(c)(3) and 509(a)(2) of the Internal Revenue Code. The Organization files Form 990, *Return of Organization Exempt from Income Taxes*, on an annual basis.

As a qualifying non-profit organization, the Organization has been issued a Retail Sales and Use Tax Certificate of Exemption from the Department of Taxation of the Commonwealth of Virginia. The exemption enables the Organization to purchase qualifying tangible personal property without being subject to Virginia sales and use tax. The Organization is unable to accurately quantify the annual tax savings resulting from this exemption. The exemption was renewed in April 2016 and expires in April 2021.

As discussed in Note 3, the Organization qualifies for a rehabilitation credit from the City of Richmond for real estate taxes.

With limited exceptions, the Organization's Form 990 is open to examination by the Internal Revenue Service for its 2013 through 2015 tax years. In accordance with FASB ASC Topic 740, *Income Taxes*, management has evaluated the Organization's tax positions and has concluded that the Organization has taken no uncertain tax positions that would require adjustment to or disclosure in the accompanying financial statements.

Cash and Cash Equivalents: The Organization considers all investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2015 and 2014, the Board has designated \$234,533 and \$156,778, respectively, of the Organization's cash and cash equivalents to fund building renovations and for operating contingencies. These funds are unrestricted and the designation is made solely at the discretion of the Organization's Board. In addition, the Organization's bingo activities are regulated by the Virginia Department of Agriculture and Consumer Services – Division of Charitable Gaming which requires that bingo proceeds be maintained in separate accounts and be sufficient to fund outstanding jackpot awards; as such, as of December 31, 2015 and 2014, \$11,480 and \$28,885 of the Organization's cash and cash equivalents were segregated for such purposes.

Property and Equipment: Property and equipment are stated at cost. Depreciation and amortization are computed on the straight-line method over the useful lives of the assets ranging from 3 to 40 years. Depreciation expense for the years ended December 31, 2015 and 2014 was \$74,654 and \$72,614, respectively. For financial statement purposes, depreciation totaling \$33,873 and \$33,648, respectively, have been reclassified to "bingo revenues, net of direct expenses" on the accompanying statements of activities and changes in net assets for the years ended December 31, 2015 and 2014.

Advertising Costs: Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2015 and 2014 were \$9,651 and \$5,150, respectively.

Concentrations of Credit Risk: At various times during the years ended December 31, 2015 and 2014, the Organization maintained cash balances on deposit with its commercial bank in excess of federally insured limits. Management of the Organization has evaluated this matter and does not believe the Organization is exposed to undue credit risk.

Notes to Financial Statements

Note 2—Summary of Significant Accounting Policies (continued)

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Subsequent Events: Management has evaluated events occurring subsequent to the date of the financial statements through September 8, 2016, the date which the financial statements were available for issuance, for matters that would require adjustment to, or disclosure in, the financial statements and has determined that there are no events warranting adjustment or disclosure.

Recent Accounting Pronouncements: Management is unaware of any accounting standards that have been issued or proposed by the Financial Accounting Standards Board (or any other standards-setting bodies) that are expected to have a material impact on the Organization's financial statements.

Note 3—Property and Equipment

The Organization's property and equipment as of December 31, 2015 and 2014 was as follows:

	2015	2014
Land	\$ 251,000	\$ 251,000
Land improvements	20,319	20,319
Building and building improvements	1,938,768	1,936,296
Building improvements in process	-	14,105
Vehicle	32,529	32,529
Furniture and fixtures	114,998	107,770
	<u>2,357,614</u>	<u>2,362,019</u>
Less: accumulated depreciation and amortization	<u>(534,288)</u>	<u>(467,123)</u>
Net property and equipment	<u>\$ 1,823,326</u>	<u>\$ 1,894,896</u>

For real estate tax purposes, the Organization's building qualifies for a rehabilitation credit from the City of Richmond which amounted to \$6,702 for each of the years ended December 31, 2015 and 2014. The rehabilitation credit was originally issued in 2009 and expires in 2023.

Diversity Richmond

Notes to Financial Statements

Note 4—Indebtedness

The Organization's indebtedness as of December 31, 2015 and 2014 was as follows:

	2015	2014
Mortgage loan payable to bank, due monthly at \$8,813, including interest at 4.10%, due 2018. Secured by a deed of trust on real estate and funds on deposit with the bank	\$ 1,034,709	\$ 1,096,069
Term loan payable to bank, due monthly at \$1,383, including interest at 3.99%, due 2018. Secured by equipment with a net book value of \$79,772 and \$87,618, respectively, at December 31, 2015 and 2014	46,093	61,185
	1,080,802	1,157,254
Less: current portion	(79,616)	(76,438)
Long-term portion of debt	\$ 1,001,186	\$ 1,080,816

For purposes of the statements of cash flows, interest payments amounted to \$46,294 and \$48,877 for the years ended December 31, 2015 and 2014, respectively. Future principal payments are as follows:

<u>Years Ending December 31:</u>	<u>Amount</u>
2016	\$ 79,616
2017	82,924
2018	918,262
Total	\$ 1,080,802

Collateral for the aforementioned indebtedness includes the Organization's real property (see note 3). In addition, the Organization's rental income is pledged or assigned as additional collateral. In 2013, the Organization refinanced its existing mortgage note and incurred loan fees in the amount of \$14,073 which are being amortized over the original life of the loan (5 years) using the straight-line method. Upon refinance of the mortgage note in 2013, previously capitalized loan fees with an unamortized balance of \$3,410 at December 31, 2012 were fully amortized in 2013. Amortization expense for these loan fees amounted to \$2,815 for each of the years ended December 31, 2015 and 2014.

The Organization maintains a credit card to facilitate web-based purchases with a \$26,000 credit limit. As of December 31, 2015 and 2014, the available balance on the credit card was \$26,000 and \$24,172, respectively.

Notes to Financial Statements

Note 5—Operating Lease

During 2014, the Organization entered into a three-year operating lease for office equipment. The lease requires payments of \$55 per month in addition to certain usage fees and annual personal property taxes. Minimum lease payments through maturity are as follows: 2016 - \$660; 2017 - \$275. Rent expense associated with this lease during the years ended December 31, 2015 and 2014 was \$889 and \$385, respectively, and is included in the accompanying statements of functional expenses for the years ended December 31, 2015 and 2014 in "Office".

Note 6—Contributed Services

During the year ended December 31, 2014, the Organization received pro bono professional services valued at \$7,650. For financial statement purposes these contributed services have been included in the accompanying 2014 statement of activities and changes in net assets as "Contributions" and in the 2014 statement of functional expenses as "Professional Fees".

The Organization is also the grateful recipient of significant services by unpaid volunteers who have made invaluable contributions of their time and talent to aid the Organization in its mission. Predominantly, volunteers provide services in the Organization's thrift store operations, its bingo operations or as Board or committee members. As the value of such services is not subject to accurate measurement, pursuant to ASC Topic 958-605, *Revenue Recognition*, of the Codification, the value of these contributed services is not reflected in the accompanying financial statements.