DIVERSITY RICHMOND, INC.

Financial Statements

December 31, 2016 and 2015

doing business as

Diversity Richmond

Diversity Thrift

Diversity Bingo

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Richmond, Virginia 23220
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Index

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Independent Auditor's Report

To the Board of Directors
Diversity Richmond, Inc.
Richmond, Virginia

We have audited the accompanying financial statements of Diversity Richmond, Inc. (hereafter the "Organization") which are comprised of the statements of financial position as of December 31, 2016 and 2015, 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)

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, 2016 and 2015, 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.

October 19, 2017

Diversity Richmond, Inc.

Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 256,973	$ 202,159
Cash and cash equivalents - Board designated	239,968	234,533
Total cash and cash equivalents (Note 4)	496,941	436,692
Accounts receivable	7,781	999
Thrift store inventory	59,896	58,622
Total current assets	564,618	496,313
Property and equipment, net (Note 3)	1,776,589	1,823,326
Other assets	6,872	4,412
Total assets	$ 2,348,079	$ 2,324,051
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 34,804	$ 17,449
Bingo prizes payable	6,595	3,740
Deposits held	15,587	9,612
Current portion of long-term debt (Note 4)	84,953	79,616
Total current liabilities	141,939	110,417
Long-term liabilities		
Long-term portion of debt (Note 4)	932,193	994,150
Total liabilities	1,074,132	1,104,567
Net assets		
Unrestricted	1,258,136	1,218,765
Temporarily restricted	15,811	719
Total net assets	1,273,947	1,219,484
Total liabilities and net assets	$ 2,348,079	$ 2,324,051

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statements of Activities and Changes in Net Assets
Years ended December 31, 2016 and 2015

	2016	2015
Change in Unrestricted Net Assets		
Revenues		
Thrift store sales, net	$ 799,600	$ 778,991
Bingo revenues, net of direct expenses	12,524	74,932
Contributions	40,422	25,668
Events revenue	3,787	4,347
Interest income	197	280
Other income	6,700	6,188
Rental income - Billboard (Note 4)	64,188	54,655
Rental income - Events Hall (Note 4)	54,118	59,653
Rental income - Other (Note 4)	5,280	1,175
Net assets released from temporary restrictions	601	1,923
Total revenues	987,417	1,007,812
Expenses		
Program services	798,587	793,764
Management and general	137,439	139,135
Fundraising	12,020	39,229
Total expenses	948,046	972,128
Change in unrestricted net assets	39,371	35,684
Change in Temporarily Resticted Net Assets		
Contributions	15,693	-
Net assets released from restrictions	(601)	(1,923)
Change in temporarily restricted net assets	15,092	(1,923)
Change in net assets	54,463	33,761
Net assets, beginning of year	1,219,484	1,185,723
Net assets, end of year	$ 1,273,947	$ 1,219,484

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statement of Functional Expenses
Year ended December 31, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	$ 353,733	$ 90,193	$ 7,040	$ 450,966
Payroll taxes	30,088	7,670	591	38,349
Employee benefits and other	40,940	10,540	1,218	52,698
Total salaries and related expenses	424,761	108,403	8,849	542,013
Advertising	6,840	-	-	6,840
Conferences and meetings	3,769	-	-	3,769
Depreciation (Note 3)	36,271	2,304	460	39,035
Events	15,512	-	-	15,512
Grants and contributions	48,261	-	-	48,261
Insurance	12,971	690	138	13,799
Interest (Notes 4 and 5)	57,816	2,701	540	61,057
Loss on disposal of property	-	441	-	441
Maintenance and repairs	45,282	2,409	481	48,172
Merchant account fees	15,240	-	-	15,240
Office and supplies (Note 6)	18,324	2,068	628	21,020
Other	7,396	393	78	7,867
Professional fees	11,386	13,795	-	25,181
Taxes and licenses (Note 3)	21,576	1,148	229	22,953
Utilities	58,060	3,087	617	61,764
Vehicle	15,122	-	-	15,122
Total functional expenses	$ 798,587	$ 137,439	$ 12,020	$ 948,046

See accompanying notes to financial statements.

Diversity Richmond, Inc.

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 (Note 3)	38,143	2,199	439	40,781
Events	3,267	2,068	-	5,335
Grants and contributions	27,136	-	-	27,136
Insurance	12,549	673	538	13,760
Interest (Note 4)	46,188	2,455	466	49,109
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 and supplies (Note 6)	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, Inc.

Statements of Cash Flows
Years ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	$ 54,463	$ 33,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	72,886	74,654
Deferred loan fees	(4,476)	-
Amortization of deferred loan fees	7,036	2,815
Fair market value adjustment for interest rate swap agreement (Note 5)	13,546	-
Loss on disposal of property	441	12,007
(Increase) decrease in operating assets:		
Accounts receivable	(6,782)	2,817
Thrift store inventory	(1,274)	460
Other assets	(2,460)	1,405
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	17,355	(19,804)
Bingo prizes payable	2,855	(25,145)
Deposits held	5,975	2,112
Net cash provided by operating activities	159,565	85,082
Cash Flows From Investing Activities		
Proceeds from maturity of certificate of deposit	-	75,000
Purchases of property and equipment	(26,590)	(15,091)
Net cash provided (used) by investing activities	(26,590)	59,909
Cash Flows From Financing Activities		
Principal payments on long-term debt	(72,726)	(76,452)
Net cash used by financing activities	(72,726)	(76,452)
Increase in cash and cash equivalents	60,249	68,539
Cash and cash equivalents, beginning of year	436,692	368,153
Cash and cash equivalents, end of year	$ 496,941	$ 436,692

See accompanying notes to financial statements.

Note 1—Purpose of the Organization

Diversity Richmond, Inc., 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 store (doing business as *Diversity Thrift*), bingo games (doing business as *Diversity Bingo*), and rental activities at its facilities in Richmond, Virginia.

Note 2—Summary of Significant Accounting Policies

Financial Statement Presentation: The Organization's financial statements are presented under accounting principles generally accepted in the United States of America ("GAAP") and 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 has never received permanently restricted contributions.

Contributions: Each 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 upon receipt as revenues in the accompanying statements of activities and changes in net assets. As of December 31, 2016, the Organization had $3,000 of such pledge agreements which are due $1,500 per year through 2018. As of December 31, 2016 and 2015, the Organization maintained $15,811 and $719, 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. GAAP requires 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. Pursuant to Topic 958, contributions are required to be 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 in "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. This 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's building 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 2014 through 2016 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, 2016 and 2015, the Board has designated $239,968 and $234,533, respectively, of the Organization's cash and cash equivalents to fund building renovations and for operating contingencies. These funds are reported in the accompanying financial statements as 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, 2016 and 2015, $6,595 and $3,740 of the Organization's cash and cash equivalents were segregated for such requirements. As discussed in Note 4, the Organization's cash and cash equivalents have been pledged as collateral under a mortgage note payable to a commercial bank.

Property and Equipment: Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the useful lives of the assets ranging from three to 40 years. Depreciation expense for the years ended December 31, 2016 and 2015 was $72,866 and $74,654, respectively. For financial statement purposes, depreciation totaling $33,831 and $33,873, respectively, has 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, 2016 and 2015.

Advertising Costs: Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2016 and 2015 were $6,840 and $9,651, respectively.

Note 2—Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk: At various times during the years ended December 31, 2016 and 2015, 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.

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 October 19, 2017, 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: In 2016, the Organization adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (hereafter "ASU 2015-03"). ASU 2015-03 required modifications to the presentation of debt issuance costs in financial statements by requiring such costs to be reported in the statement of financial position as a direct reduction from the related liability rather than as an asset. In addition, ASU 2015-03 required the amortization of debt issuance costs be reported as interest expense versus amortization expense. Pursuant to criteria established by ASU 2015-03, the Organization has adopted ASU 2015-03 criteria retrospectively as of January 1, 2015.

The changes to the Organization's previously issued financial statements resulting from the retrospective adoption of ASC 2015-03 were as follows:

	As Previously Reported	Change	As Restated
Statement of Financial Position			
Other assets	$ 11,448	(7,036)	$ 4,412
Long-term portion of debt	1,001,186	(7,036)	994,150
Statement of Functional Expenses			
Depreciation and amortization	$ 43,596	(2,815)	$ 40,781
Interest	46,294	2,815	49,109

Note 2—Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, Topic 842, *Leases*, regarding the accounting for and disclosure of lease arrangements. Implementation of ASU 2016-02 will be effective for the Organization's 2020 calendar year although early implementation is permitted. The stated purpose of ASU 2016-02 is to increase transparency and comparability among all entities by recognizing lease assets and lease liabilities in the statement of financial position and disclosing key information about leasing arrangements. The Organization intends to implement ASU 2016-02 in calendar year 2020 and expects the impact of ASU 2016-02 to be immaterial as the Organization's leasing activities have historically been insignificant.

In August 2016, the FASB issued ASU 2016-14 that amends Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*, of the Codification. ASU 2016-14 will be applicable to the Organization effective for the Organization's 2018 calendar year although early implementation is permitted. The provisions of ASU 2016-14 are aimed at improving the current net asset classification requirements and the information presented in not-for-profit's liquidity, financial performance and cash flows to benefit donors, grantors, creditors and other users of not-for-profit's financial statements.

The primary provisions of ASU 2016-14 require not-for-profits to:

1. Present in the financial statements two classes of net assets: *net assets without donor restrictions* and *net assets with donor restrictions* (essentially eliminating the current classification of permanently restricted net assets);

2. Provide enhanced disclosures regarding:

    a. Board-designated, or other self-imposed limits, on the use of net assets without donor restrictions;
    b. the composition of net assets with donor restrictions;
    c. the not-for-profit's liquidity and its ability to meet its cash needs for the successive twelve month period by disclosing qualitative and quantitative information;
    d. the methods utilized to allocate costs among program and support functions; and
    e. "underwater" endowment funds.

3. Modify the manner in which investment return is presented with regards to investment expenses; and

4. Present additional disclosures, if applicable, regarding the use of the "placed-in-service" approach to reclassify amounts from net assets with donor restrictions to net assets without donor restrictions for long-lived assets.

Note 2—Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

Management of the Organization is currently evaluating the provisions of ASU 2016-14 and believes provisions 1, 2a, 2b, 2c and 2d (above) will be applicable while the remaining provisions will not be applicable. Management has not made a determination whether to early adopt or adopt in 2018.

Management is unaware of any additional accounting standards that have been issued or proposed by the FASB (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, 2016 and 2015 was as follows:

	2016	2015
Land	$ 251,000	$ 251,000
Land improvements	20,319	20,319
Building and building improvements	1,956,725	1,938,768
Vehicle	32,529	32,529
Furniture and fixtures	114,199	114,998
	2,374,772	2,357,614
Less: accumulated depreciation	(598,183)	(534,288)
Property and equipment, net	$ 1,776,589	$ 1,823,326

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, 2016 and 2015. The rehabilitation credit was originally issued in 2009 and expires in 2023. As discussed in Note 4, the Organization's land, land improvements, building and building improvements have been pledged as collateral under a mortgage note payable to a commercial bank.

Note 4—Indebtedness

The Organization's indebtedness as of December 31, 2016 and 2015 was as follows:

	2016	2015
Variable rate mortgage loan payable to bank, due monthly at $8,758, including interest at one month LIBOR plus 2.20% (2.82% at December 31, 2016), due 2028. Secured by deed of trust on real estate, assignment of rents and funds on deposit with the bank (see Note 5)	$ 976,347	$ -
Fixed rate mortgage loan payable to bank, due monthly at $8,813, including interest at 4.10%, due 2018 (refinanced in 2016). Secured by deed of trust on real estate, assignment of rents and funds on deposit with the bank	-	1,034,709
Interest rate swap instrument converting above mortgage loan payable from variable rate to fixed rate, expiring 2028 (see Note 5)	13,546	-
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 $71,925 and $79,772, respectively, at December 31, 2016 and 2015	31,729	46,093
Deferred loan fees	(4,476)	(7,036)
	1,017,146	1,073,766
Less: current portion	(84,953)	(79,616)
Long-term portion of debt	$ 932,193	$ 994,150

For the aforementioned variable rate mortgage loan payable to bank, the applicable variable rate at December 31, 2016 was 2.82% (see Note 5). For purposes of the statements of cash flows, interest payments amounted to $40,475 and $46,294 for the years ended December 31, 2016 and 2015, respectively.

Note 4—Indebtedness (continued)

Future principal payments are as follows:

Years Ending December 31:	Amount
2017	$ 84,953
2018	87,444
2019	73,666
2020	75,465
2021	77,624
Thereafter	608,924
Total	$ 1,008,076

Collateral for the aforementioned indebtedness includes the Organization's real property (see Note 3). In addition, the Organization's cash and cash equivalents and future rental income is pledged or assigned as additional collateral. In 2016, the Organization entered into an interest rate swap agreement (see Note 5) and incurred loan fees in the amount of $4,476 which are being amortized over the life of the agreement (12 years) using the straight-line method (which approximates the level yield method). Upon execution of the interest rate swap agreement, previously capitalized loan fees with an unamortized balance of $7,036 at December 31, 2015 were fully amortized in 2016. Amortization expense for these deferred loan fees amounted to $7,036 and $2,815 for the years ended December 31, 2016 and 2015, respectively, and are reported in the accompanying statements of functional expenses in "Interest".

A summary of the components of the interest expense for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Interest payments	$ 40,475	$ 46,294
Amortization of deferred loan fees	7,036	2,815
Fair value adjustment for interest rate swap instrument	13,546	-
Total	$ 61,057	$ 49,109

The Organization maintains a credit card to facilitate incidental and web-based purchases with a $26,000 credit limit. As of December 31, 2016 and 2015, the available balance on the credit card was $20,581 and $26,000, respectively.

Note 5—Interest Rate Swap Agreement

Effective December 2, 2016, the Organization entered into an interest rate swap agreement accounted as a fair value hedge to convert the interest payments on its variable rate mortgage loan payable (see Note 4) to a fixed rate. The interest rate swap agreement converts interest payments to a fixed rate of 4.44% and expires in 2028.

For the period from December 2, 2016 through December 31, 2016, the fair value of the interest rate swap instrument decreased by $13,546. Pursuant to criteria established by the Codification, the change in fair value of fair value hedge transactions are reflected in operations as income or expense; accordingly, an expense of $13,546 is reported in the accompanying statement of functional expenses for the year ended December 31, 2016 and is included in "Interest".

The fair value of the Organization's interest rate swap instrument has been calculated by discounting anticipated future cash flows of both the fixed rate and variable rate interest payments. The discount rate was derived from a yield curve created by a major financial institution. The fair value of the interest rate swap as of December 31, 2016 was an additional liability of $13,546 and is reported in the accompanying statement of financial position as of December 31, 2016 in "Long-term portion of debt". The Organization did not have any interest rate swap agreements at any time during 2015.

Note 6—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. Required minimum lease payments in 2017 are $275. Rent expense associated with this lease during the years ended December 31, 2016 and 2015, was $881 and $889, respectively, and is included in the accompanying statements of functional expenses for the years ended December 31, 2016 and 2015, in "Office and supplies".

Note 7—Contributed Services

The Organization is 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 Topic 958-605, *Revenue Recognition*, of the Codification, the value of these contributed services is not reflected in the accompanying financial statements.

Note 8— Contingencies

In the normal course of operations, the Organization is subject to litigation from disgruntled customers, employees and various other parties. Management has evaluated all outstanding threatened and/or active litigation and has concluded that such matters are frivolous and/or clearly insignificant to the Organization's accompanying financial statements. In the unlikely event an outstanding matter is unfavorably resolved through the judicial system, mediation or settlement, the Organization maintains adequate general liability insurance to mitigate its risk exposure.