

**DIVERSITY RICHMOND, INC.**

**Financial Statements**

**December 31, 2018**

*doing business as*

Diversity Richmond

Diversity Thrift

1407 Sherwood Avenue  
Richmond, Virginia 23220  
(804) 622-4646  
[www.diversityrichmond.org](http://www.diversityrichmond.org)

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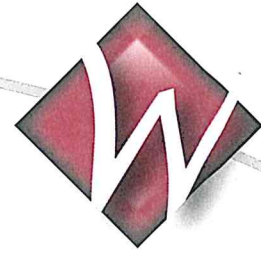
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# Steve Walls & Associates, PLLC

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



## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of Diversity Richmond, Inc. (the "Organization"), which are comprised of the statements of financial position as of December 31, 2018 and 2017, 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**

**Emphasis of Matter**

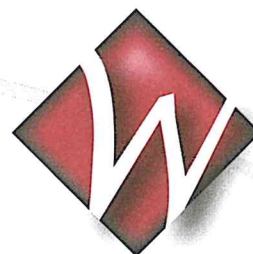
As discussed in Note 2, effective July 1, 2018, the Organization adopted the provisions of Accounting Standards Update 2016-14 ("ASU 2016-14") that amended Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*, of the Codification. Prior year disclosures have been modified to conform to the presentation and disclosure requirements of ASU 2016-14.

**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, 2018 and 2017, 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 Wells & Associates, PLLC

September 9, 2019



Diversity Richmond, Inc.

Statements of Financial Position  
December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 352,626	\$ 312,509
Cash and cash equivalents - Board designated	51,154	240,049
<b>Total cash and cash equivalents (Notes 2 and 5)</b>	403,780	552,558
Investments - Board designated (Note 2)	250,209	-
Accounts receivable	3,648	13,316
Thrift store inventory	69,353	64,757
<b>Total current assets</b>	726,990	630,631
Property and equipment, net (Note 4)	1,675,787	1,727,818
Other assets	14,906	6,564
<b>Total assets</b>	<u>\$ 2,417,683</u>	<u>\$ 2,365,013</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 35,276	\$ 34,655
Bingo prizes payable	-	2,543
Deposits held	13,487	12,537
Current portion of long-term debt (Note 5)	73,666	87,405
<b>Total current liabilities</b>	122,429	137,140
Long-term liabilities		
Long-term portion of debt (Note 5)	760,214	841,024
<b>Total liabilities</b>	882,643	978,164
Net assets		
Without donor restrictions	1,508,723	1,358,642
With donor restrictions	26,317	28,207
<b>Total net assets</b>	1,535,040	1,386,849
<b>Total liabilities and net assets</b>	<u>\$ 2,417,683</u>	<u>\$ 2,365,013</u>

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statements of Activities and Changes in Net Assets  
Years ended December 31, 2018 and 2017

	2018	2017
<b>Change in Unrestricted Net Assets</b>		
<b>Revenues</b>		
Thrift store sales, net	\$ 938,687	\$ 879,459
Bingo revenues, net of direct expenses	19,254	20,235
Contributions	81,144	54,483
Program revenue	632	3,037
Interest income	1,634	104
Other income	2,250	16,097
Rental income - Billboard (Notes 5 and 7)	79,622	79,214
Rental income - Events Hall (Note 5)	52,625	51,448
Rental income - Other (Note 5)	2,960	3,710
Net assets released from donor restrictions	41,890	28,104
<b>Total revenues</b>	<u>1,220,698</u>	<u>1,135,891</u>
<b>Expenses</b>		
Program services	954,327	880,816
Management and general	87,212	141,975
Fundraising	29,078	12,594
<b>Total expenses</b>	<u>1,070,617</u>	<u>1,035,385</u>
<b>Change in unrestricted net assets</b>	150,081	100,506
<b>Change in Temporarily Restricted Net Assets</b>		
Contributions	40,000	40,500
Net assets released from donor restrictions	(41,890)	(28,104)
<b>Change in temporarily restricted net assets</b>	<u>(1,890)</u>	<u>12,396</u>
<b>Change in net assets</b>	148,191	112,902
Net assets, beginning of year	<u>1,386,849</u>	<u>1,273,947</u>
<b>Net assets, end of year</b>	<u>\$ 1,535,040</u>	<u>\$ 1,386,849</u>

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statement of Functional Expenses

Year ended December 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 447,894	\$ 47,596	\$ 15,350	\$ 510,840
Payroll taxes	36,025	3,792	1,222	41,039
Employee benefits and other	62,495	5,820	4,273	72,588
<b>Total salaries and related expenses</b>	<b>546,414</b>	<b>57,208</b>	<b>20,845</b>	<b>624,467</b>
Advertising	5,028	246	-	5,274
Conferences and meetings	1,425	2,294	355	4,074
Depreciation (Note 4)	57,926	3,080	616	61,622
Events	44,889	-	-	44,889
Grants and contributions	40,955	-	-	40,955
Insurance	14,873	1,910	226	17,009
Interest (Notes 5 and 6)	25,033	1,332	266	26,631
Maintenance and repairs	30,743	8,038	1,608	40,389
Merchant account fees	20,950	-	-	20,950
Office and supplies (Note 7)	17,977	3,374	3,229	24,580
Other	8,084	921	186	9,191
Professional fees	36,559	4,154	831	41,544
Taxes and licenses (Note 4)	20,948	1,114	223	22,285
Utilities	65,155	3,466	693	69,314
Vehicle	17,368	75	-	17,443
<b>Total functional expenses</b>	<b>\$ 954,327</b>	<b>\$ 87,212</b>	<b>\$ 29,078</b>	<b>\$ 1,070,617</b>

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 409,357	\$ 90,270	\$ 7,566	\$ 507,193
Payroll taxes	33,128	7,305	612	41,045
Employee benefits and other	55,077	12,145	1,018	68,240
<b>Total salaries and related expenses</b>	<b>497,562</b>	<b>109,720</b>	<b>9,196</b>	<b>616,478</b>
Advertising	6,885	-	-	6,885
Conferences and meetings	5,432	-	-	5,432
Depreciation (Note 4)	50,702	2,697	539	53,938
Events	34,902	-	-	34,902
Grants and contributions	39,008	-	-	39,008
Insurance	15,878	845	168	16,891
Interest (Notes 5 and 6)	30,114	1,602	320	32,036
Loss on disposal of property	216	12	2	230
Maintenance and repairs	41,928	2,230	445	44,603
Merchant account fees	17,209	-	-	17,209
Office and supplies (Note 7)	21,310	1,134	226	22,670
Other	9,405	500	100	10,005
Professional fees	20,053	19,251	801	40,105
Taxes and licenses (Note 4)	14,899	793	159	15,851
Utilities	59,987	3,191	638	63,816
Vehicle	15,326	-	-	15,326
<b>Total functional expenses</b>	<b>\$ 880,816</b>	<b>\$ 141,975</b>	<b>\$ 12,594</b>	<b>\$ 1,035,385</b>

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 148,191	\$ 112,902
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,952	70,858
Amortization of deferred loan fees	373	373
Interest income on investments	(209)	-
Fair market value adjustment for interest rate swap agreement (Note 6)	(13,544)	(11,012)
Loss on disposal of property	-	230
(Increase) decrease in operating assets:		
Accounts receivable	9,667	(5,535)
Thrift store inventory	(4,596)	(4,861)
Other assets	(8,342)	308
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	621	(149)
Bingo prizes payable	(2,543)	(4,052)
Deposits held	950	(3,050)
<b>Net cash provided by operating activities</b>	<u>210,520</u>	<u>156,012</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(250,000)	-
Purchases of property and equipment	(27,920)	(22,317)
<b>Net cash used by investing activities</b>	<u>(277,920)</u>	<u>(22,317)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(81,378)	(78,078)
<b>Net cash used by financing activities</b>	<u>(81,378)</u>	<u>(78,078)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(148,778)	55,617
Cash and cash equivalents, beginning of year	<u>552,558</u>	<u>496,941</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 403,780</u></u>	<u><u>\$ 552,558</u></u>

See accompanying notes to financial statements.

## Diversity Richmond, Inc.

### Notes to Financial Statements

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#### Note 1—Purpose of the Organization

Diversity Richmond, Inc. (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*) and rental activities at its facilities in Richmond, Virginia. Through July 2019, the Organization also raised funds through the operation of bingo games (doing business as *Diversity Bingo*).

In November 2017, the Organization became an Accredited Charity by the Better Business Bureau by meeting the Better Business Bureau’s twenty (20) standards for charity accountability in all categories: (a) governance, (b) measuring effectiveness, (c) finances and (d) fundraising and information. The Organization’s accreditation expires in December 2019.

Pursuant to the Organization’s Bylaws, the Organization is governed by a Board of Directors comprised of at least seven (7) but no more than thirty (30) individuals. At December 31, 2018, the Board of Directors consisted of seventeen (17) members, all of whom were independent of the Organization. In addition to Board and Committee service, the Organization is the grateful recipient of financial contributions from 100% of its Board of Directors and Executive Management.

One of the Organization’s Directors is an employee of SunTrust Bank, the commercial bank utilized by the Organization for its depository accounts and its mortgage loan payable. At December 31, 2018, SunTrust Bank held \$403,780 of the Organization’s cash and cash equivalents and also held an outstanding commercial real estate mortgage loan in the amount of \$833,880. The Organization believes the terms of its business activities with SunTrust Bank are consummated at fair value.

#### 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*. Pursuant to the Codification, the Organization reports its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as the contribution was received are reported as net assets without donor restrictions in the statement of activities and changes in net assets.

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, 2018 and 2017, the Organization maintained \$26,317 and \$28,207, respectively, in net assets with donor restrictions to be used for program purposes.

Notes to Financial Statements

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**Note 2—Summary of Significant Accounting Policies (continued)**

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".

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, 2018 and 2017, the Board has designated \$51,154 and \$240,049, 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 net assets without donor restrictions and the designation is made solely at the discretion of the Organization's Board of Directors. 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, 2017, \$2,543 of the Organization's cash and cash equivalents were segregated for such requirements. As discussed in Note 5, the Organization's cash and cash equivalents have been pledged as collateral under a mortgage note payable to its commercial bank.

Investments: The Organization's certificates of deposit are recorded at cost. Due to the short-term nature of these instruments, cost is deemed to approximate fair value. Interest income is recorded on the accrual basis using contractual interest rates in effect during the term of each instrument. The Organization's certificates of deposit are subject to early withdrawal penalties; such matters have not been reflected in the accompanying financial statements as management believes the likelihood of early withdrawal is remote. As of December 31, 2018, the Board has designated its investments to fund building renovations and for operating contingencies.

Property and equipment: Property and equipment are stated at cost. The Organization capitalizes assets with an original cost over \$500. 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, 2018 and 2017, was \$79,952 and \$70,858, respectively. For financial statement purposes, depreciation totaling \$18,330 and \$16,920, 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, 2018 and 2017.

Diversity Richmond, Inc.

Notes to Financial Statements

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**Note 2—Summary of Significant Accounting Policies (continued)**

Advertising costs: Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2018 and 2017 were \$5,274 and \$6,885, respectively.

Concentrations of credit risk: At various times during the years ended December 31, 2018 and 2017, 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.

Reclassifications: Certain amounts previously presented in the Organization’s 2017 financial statements have been reclassified to conform to presentations adopted in 2018.

Subsequent events: Management has evaluated events occurring subsequent to the date of the financial statements through September 9, 2019 (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.

Fair value disclosures: Except as disclosed in Notes 4 and 6, for purposes of fair value disclosures required pursuant to GAAP, the Organization’s financial assets and liabilities are short-term in nature and cost is deemed to approximate fair value.

Functional allocation of expenses: For purposes of the statements of functional expenses, direct expenses that are able to be allocated using the specific identification method are reported accordingly. Indirect expenses are allocated based on an allocation model based on an analysis of time and effort expended by each staff member for program, management and general, and fundraising purposes; this analysis resulted in an allocation model as follows for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program	94%	94%
General and administrative	5%	5%
Fundraising	1%	1%

**Note 2—Summary of Significant Accounting Policies (continued)**

Implementation of new accounting policy: Effective January 1, 2018, the Organization adopted the provisions of Accounting Standards Update 2016-14 (“ASU 2016-14”) that amended Topic 958, *Presentation of Financial Statements of Not-for-Profit Entities*, of the Codification.

Essentially, ASU 2016-14 modified the terminology and manner of presentation for a non-profit organization’s restricted net assets to present in the financial statements two classes of net assets: *net assets without donor restrictions* and *net assets with donor restrictions* (essentially eliminating the pre-existing classification of permanently restricted net assets). In addition, ASU 2016-14 dictated 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, if any. Provisions (a) through (d) are applicable to the Organization and the required disclosures are reflected herein. Prior year financial statements have been modified to conform with the presentations required by ASU 2016-14.

Recent accounting pronouncements: Accounting Standards Update 2014-09, *Revenues from Contracts with Customers* (Topic 606), (“ASU 2014-09”) was issued in May 2014 and will be effective for the Organization’s 2019 calendar year. ASU 2014-09 is the result of a joint project by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to clarify the principles for recognizing revenue and to develop a common standard for domestic and international financial reporting to (a) remove inconsistencies and weaknesses in pre-existing revenue recognition requirements, (b) provide a more robust framework for addressing revenue recognition issues, (c) improve comparability across entities, industries, jurisdictions and capital markets, (d) provide more useful information to users of financial statements through improved disclosure requirements, and (e) to simplify the preparation of financial statements.

It is expected that ASU 2014-09 will have a significant impact to commercial entities; however, the impact of ASU 2014-09 is expected to be immaterial to the Organization as its predominant revenue streams are from (a) sales at point of service and (b) unconditional donations from the general public. Historically, the Organization has limited program service revenues and, therefore, it is expected that the impact to the Organization upon implementing ASU 2014-09 will be immaterial.

Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (“ASU 2018-08”) was issued in June 2018 and will be effective for the Organization’s 2019 calendar year. ASU 2018-08 clarifies existing rules to enable not-for-profit entities to determine whether revenue transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchanges (reciprocal transactions) within the scope of Topic 606, *Revenues from Contracts with Customers*. ASU 2018-08 also provides guidance to assist not-for-profit entities to determine whether a contribution is unconditional or conditional. The Organization has not assessed the impact of implementing ASU 2018-08 but does not expect it to materially affect the Organization’s financial statements.

Diversity Richmond, Inc.

Notes to Financial Statements

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**Note 2—Summary of Significant Accounting Policies (continued)**

Implementation of new accounting policy - continued: In February 2016, the FASB issued Accounting Standards Update 2016-02, Topic 842, *Leases*, (“ASU 2016-02”) regarding the accounting for and disclosure of lease arrangements. Implementation of ASU 2016-02 will be effective for the Organization’s 2020 calendar year (however, the FASB has made preliminary indications of delaying the implementation deadline to January 1, 2022). 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 2020 and expects the impact of ASU 2016-02 to be immaterial as the Organization’s leasing activities have historically been insignificant.

Management is unaware of any additional accounting standards that have been issued or proposed by the FASB (or any other applicable standards-setting bodies) that are expected to have an impact on the Organization’s financial statements.

**Note 3—Investments**

As of December 31, 2018, the Organization held two domestic certificates of deposit through a retail brokerage firm, as follows:

	<u>Amount</u>
Certificate of deposit, Zions Bancorporation National Association, maturing in June 2019, bearing interest at 2.45%	\$ 125,000
Certificate of deposit, State Bank India, maturing in December 2019, bearing interest at 2.80%	125,000
Money market account bearing interest at 1.77%	<u>209</u>
	<u>\$ 250,209</u>

The aforementioned certificates of deposit are fully insured by the FDIC and are subject to early withdrawal penalties.

**Diversity Richmond, Inc.**

**Notes to Financial Statements**

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**Note 4—Property and Equipment**

The Organization’s property and equipment as of December 31, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 251,000	\$ 251,000
Land improvements	20,319	20,319
Building and building improvements	1,974,002	1,973,611
Vehicle	32,529	32,529
Furniture and fixtures	<u>106,560</u>	<u>114,531</u>
	2,384,410	2,391,990
Less: accumulated depreciation	<u>(708,619)</u>	<u>(664,172)</u>
Property and equipment, net	<u>\$ 1,675,791</u>	<u>\$ 1,727,818</u>

For real estate tax purposes, the Organization’s building qualifies for a rehabilitation credit from the City of Richmond which amounted to \$6,822 and \$6,954 for the years ended December 31, 2018 and 2017, respectively. The rehabilitation credit was originally issued in 2009 and expires in 2023. As discussed in Note 4, all of the Organization’s property and equipment have been pledged as collateral under a mortgage note payable to its commercial bank.

For purposes of fair value disclosures, the City of Richmond’s (“the City”) assessment utilized for the City’s January 2019 real estate tax assessment valued the Organization’s real property at \$2,187,000. Due to the methodologies utilized by the City for real estate assessment purposes, this amount may be suggestive (but not necessarily indicative) of fair value determined on an open market.

**Diversity Richmond, Inc.**

**Notes to Financial Statements**

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**Note 5—Indebtedness**

The Organization's indebtedness as of December 31, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Variable rate mortgage loan payable to bank, due monthly at \$8,758, including interest at one month LIBOR plus 2.20% (4.66% and 3.57% at December 31, 2018 and 2017, respectively, due 2028. Secured by deed of trust on real estate, assignment of rents and funds on deposit with the bank.	\$ 848,620	\$ 913,918
Interest rate swap instrument converting above mortgage loan payable from variable rate to fixed rate, expiring 2028 (see Note 5).	(11,010)	2,534
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 \$64,079 at December 31, 2017.	-	16,080
Deferred loan fees	<u>(3,730)</u>	<u>(4,103)</u>
	833,880	928,429
Less: current portion	<u>(73,666)</u>	<u>(87,405)</u>
Long-term portion of debt	<u>\$ 760,214</u>	<u>\$ 841,024</u>

For purposes of the statements of cash flows, interest payments totaled to \$39,802 and \$42,675 for the years ended December 31, 2018 and 2017, respectively.

Future principal payments are as follows:

<u>Years Ending December 31:</u>	<u>Amount</u>
2019	\$ 73,666
2020	75,465
2021	77,624
2022	79,844
2023	82,128
Thereafter	<u>445,153</u>
Total	<u>\$ 833,880</u>

## Diversity Richmond, Inc.

### Notes to Financial Statements

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#### Note 5—Indebtedness (continued)

Collateral for the aforementioned indebtedness includes the Organization’s real property (see Note 4). 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 6) 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). Amortization expense for these deferred loan fees amounted to \$373 for each of the years ended December 31, 2018 and 2017.

A summary of the components of interest expense for the years ended December 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Interest payments	\$ 39,802	\$ 42,675
Amortization of deferred loan fees	373	373
Fair value adjustment for interest rate swap instrument	<u>(13,544)</u>	<u>(11,012)</u>
Total	<u>\$ 26,631</u>	<u>\$ 32,036</u>

The Organization maintains a credit card to facilitate incidental and web-based purchases with a \$26,000 credit limit. As of December 31, 2018 and 2017, the available balance on the credit card was \$20,933 and \$16,053, respectively.

#### Note 6—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 5) 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 years ended December 31, 2018 and 2017, the fair value of the interest rate swap instrument increased by \$13,544 and \$11,012, respectively. Pursuant to criteria established by the Codification, the change in fair value of fair value hedge transactions is reflected in operations as income or expense; accordingly, income of \$13,544 and \$11,012 is reported in the accompanying statements of functional expenses as an offset to “Interest” for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017, was \$11,010 and (\$2,534), respectively, and is reported in the accompanying statements of financial position in “Long-term portion of debt”.

**Diversity Richmond, Inc.**

**Notes to Financial Statements**

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**Note 7—Operating Leases**

The Organization, as lessor, has entered into a 20-year operating lease for a specific parcel of real property to an independent third party to utilize for billboard advertising purposes. This operating lease stipulates base rental income of \$25,000 per year plus 20% of annual billings (in excess of base rental) as percentage rent. During the years ended December 31, 2018 and 2017, the Organization collected \$79,622 and \$79,214, respectively, in rental income under this operating lease agreement. As discussed in Note 4, this rental income is pledged as collateral under the Organization’s mortgage note payable.

**Note 8—Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2018 and 2017, were restricted as follows:

	<u>2018</u>	<u>2017</u>
Executive Director's discretionary fund	\$ 5,000	\$ 10,000
Performances and events	21,317	17,707
Black Pride/LGBTQ+ awareness	<u>-</u>	<u>500</u>
	<u>\$ 26,317</u>	<u>\$ 28,207</u>

Diversity Richmond, Inc.

Notes to Financial Statements

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**Note 8—Temporarily Restricted Net Assets (continued)**

During the years ended December 31, 2018 and 2017, temporarily restricted net assets were received and used, as follows:

	<u>Amount</u>
Balance, January 1, 2017	\$ 15,811
Executive Director's discretionary fund	(5,000)
Grant received for performances and associated events	40,000
Costs incurred for performances and associated events	(22,293)
Grant received for Black Pride/LGBTQ+ awareness	500
Other, net	<u>(811)</u>
Balance, December 31, 2017	28,207
Executive Director's discretionary fund	(5,000)
Grant received for performances and associated events	40,000
Costs incurred for performances and associated events	(36,390)
Costs incurred for Black Pride/LGBTQ+ awareness	<u>(500)</u>
Balance, December 31, 2018	<u><u>\$ 26,317</u></u>

During 2016, the Organization received a restricted contribution in the amount of \$15,000 to establish a discretionary fund to be disbursed by the Executive Director for the benefit of LGBTQ+ individuals in need. Pursuant to donor restrictions, \$5,000 of these funds shall be utilized in each calendar year from 2017 through 2019. In each of the years ended December 31, 2018 and 2017, the Organization received a \$40,000 contribution restricted to fund performances and associated events free to the general public. This grant has also been received in 2019 for the period from July 1, 2018 through June 30, 2019.

**Note 9—Contributed Services**

The Organization is the grateful recipient of significant services by 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 10— 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.

## Diversity Richmond, Inc.

### Notes to Financial Statements

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#### Note 11—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 “Code”). The Organization files Form 990, *Return of Organization Exempt from Income Taxes*, and Form 990-T, *Exempt Organization Business Income Tax Return*, 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 Commonwealth of Virginia Department of Taxation. 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 4, the Organization’s building qualifies for a rehabilitation credit from the City of Richmond for real estate taxes.

With limited exceptions, the Organization’s Forms 990 and 990-T are open to examination by the Internal Revenue Service for its 2016 through 2018 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.

#### Note 12—Liquidity

The Organization’s financial assets at December 31, 2018 available through the year ending December 31, 2019 are as follows:

Cash	\$ 403,780
Certificates of deposit	250,209
Accounts receivable	<u>3,648</u>
Total	<u>\$ 657,637</u>

As discussed in Note 3, the Organization’s certificates of deposit mature throughout 2019 but are subject to early withdrawal penalties. The Organization’s 2019 operating expenditures are budgeted in the amount of \$1,124,199. Management believes it has sufficient liquidity to meet the Organization’s operating needs for the upcoming calendar year.