

DIVERSITY RICHMOND, INC

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CONTENTS

INDEPENDENT AUDITOR’S REPORT..... Page 1 - 2

FINANCIAL STATEMENTS

 STATEMENTS OF FINANCIAL POSITION..... 3

 STATEMENT OF ACTIVITIES - YEAR ENDED DECEMBER 31, 2022 4

 STATEMENT OF ACTIVITIES - YEAR ENDED DECEMBER 31, 2021 5

 STATEMENT OF FUNCTIONAL EXPENSES - YEAR ENDED
 DECEMBER 31, 2022..... 6

 STATEMENT OF FUNCTIONAL EXPENSES - YEAR ENDED
 DECEMBER 31, 2021 7

 STATEMENTS OF CASH FLOWS 8

NOTES TO FINANCIAL STATEMENTS 9 - 20



HARRIS, HARDY & JOHNSTONE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diversity Richmond, Inc.
Richmond, Virginia

Opinion

We have audited the accompanying financial statements of Diversity Richmond, Inc. (the "Organization") (a non-profit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Diversity Richmond, Inc. as of December 31, 2022, 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.

Basis for Qualified Opinion

We did not observe the taking of the physical inventory as of December 31, 2022 (stated at \$87,861), since that date was prior to the time we were initially engaged as auditors for the Organization. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Diversity Richmond, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Diversity Richmond, Inc. as of December 31, 2021 were audited by other auditors whose report dated November 2, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Diversity Richmond, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Diversity Richmond, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Diversity Richmond, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Harris, Hardy ; Johnstone, P.C.

Richmond, Virginia
November 13, 2023

DIVERSITY RICHMOND, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,149,208	\$ 1,275,308
Contributions receivable	5,000	1,545
Other receivables	8,729	-
Thrift store inventory	87,861	98,599
Land, building, and equipment, net	1,613,333	1,704,217
Investments	244,104	259,513
Other	23,355	23,481
	<u>\$ 3,131,590</u>	<u>\$ 3,362,663</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 59,041	\$ 120,832
Deposits held	12,225	14,049
Long-term debt, net of unamortized loan fees	525,065	657,062
	<u>596,331</u>	<u>791,943</u>
NET ASSETS		
Without donor restrictions	2,456,646	2,400,859
With donor restrictions	78,613	169,861
	<u>2,535,259</u>	<u>2,570,720</u>
	<u>\$ 3,131,590</u>	<u>\$ 3,362,663</u>

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Support, Other Than Special Events			
Contributions	\$ 204,199	\$ 261,000	\$ 465,199
In-kind	127,383	-	127,383
Total Support, Other Than Special Events	<u>331,582</u>	<u>261,000</u>	<u>592,582</u>
Special Events			
Special event revenue	11,655	-	11,655
Direct benefits to donors	(6,563)	-	(6,563)
Net Support from Special Events	<u>5,092</u>	<u>-</u>	<u>5,092</u>
Program Services Revenue			
Program fees	10,695	-	10,695
Sales of Product			
Thrift store sales	1,162,137	-	1,162,137
Cost of goods sold	(17,775)	-	(17,775)
Net Sales of Product	<u>1,144,362</u>	<u>-</u>	<u>1,144,362</u>
Other Revenues and Gains			
Rent - billboard	122,606	-	122,606
Rent - events hall	72,843	-	72,843
Rent - other	10,590	-	10,590
Other income	38,025	-	38,025
Investment return, net	(15,366)	-	(15,366)
Total Other Revenues and Gains	<u>228,698</u>	<u>-</u>	<u>228,698</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	352,248	(352,248)	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>2,072,677</u>	<u>(91,248)</u>	<u>1,981,429</u>
EXPENSES			
Program Services	1,808,535	-	1,808,535
Management and General	164,890	-	164,890
Fundraising	43,465	-	43,465
TOTAL EXPENSES	<u>2,016,890</u>	<u>-</u>	<u>2,016,890</u>
CHANGE IN NET ASSETS	55,787	(91,248)	(35,461)
NET ASSETS, beginning of year	2,400,859	169,861	2,570,720
NET ASSETS, end of year	<u>\$ 2,456,646</u>	<u>\$ 78,613</u>	<u>\$ 2,535,259</u>

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Support, Other Than Special Events			
Contributions	\$ 85,229	\$ 247,141	\$ 332,370
In-kind	128,316	-	128,316
Total Support, Other Than Special Events	<u>213,545</u>	<u>247,141</u>	<u>460,686</u>
Special Events			
Special event revenue	12,706	-	12,706
Direct benefits to donors	(7,694)	-	(7,694)
Net Support from Special Events	<u>5,012</u>	<u>-</u>	<u>5,012</u>
Program Services Revenue			
Program fees	17,346	-	17,346
Sales of Product			
Thrift store sales	1,346,820	-	1,346,820
Cost of goods sold	(15,812)	-	(15,812)
Net Sales of Product	<u>1,331,008</u>	<u>-</u>	<u>1,331,008</u>
Other Revenues and Gains			
Rent - billboard	113,072	-	113,072
Rent - events hall	73,546	-	73,546
Rent - other	22,865	-	22,865
Other income	142,566	-	142,566
Investment return, net	653	-	653
Total Other Revenues and Gains	<u>352,702</u>	<u>-</u>	<u>352,702</u>
Net Assets Released from Restrictions			
Satisfaction of program restrictions	143,511	(143,511)	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	<u>2,063,124</u>	<u>103,630</u>	<u>2,166,754</u>
EXPENSES			
Program Services	1,496,248	-	1,496,248
Management and General	134,733	-	134,733
Fundraising	31,166	-	31,166
TOTAL EXPENSES	<u>1,662,147</u>	<u>-</u>	<u>1,662,147</u>
CHANGE IN NET ASSETS	400,977	103,630	504,607
Net assets from Gay Pride Virginia merger	230,077	-	230,077
NET ASSETS, beginning of year	1,769,805	66,231	1,836,036
NET ASSETS, end of year	<u>\$ 2,400,859</u>	<u>\$ 169,861</u>	<u>\$ 2,570,720</u>

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 667,713	\$ 67,522	\$ 15,005	\$ 750,240
Payroll taxes	52,152	5,274	1,172	58,598
Employee benefits	67,200	6,796	1,510	75,506
	<u>787,065</u>	<u>79,592</u>	<u>17,687</u>	<u>884,344</u>
Events	276,158	27,926	6,206	310,290
Grants and contributions	235,863	-	-	235,863
Professional fees	109,573	11,080	2,462	123,115
Depreciation	97,933	9,903	2,201	110,037
Utilities	66,317	6,706	1,490	74,513
Other	48,998	4,955	1,101	55,054
Taxes and licenses	42,867	4,335	963	48,165
Maintenance and repairs	41,733	4,220	938	46,891
Advertising	41,038	-	5,072	46,110
Office and supplies	14,217	14,217	3,160	31,594
Merchant account fees	27,425	-	1,751	29,176
Insurance	23,814	2,408	535	26,757
Vehicle operations	20,929	2,116	470	23,515
Cost of goods sold	16,709	-	1,066	17,775
Conferences and meetings	4,509	456	101	5,066
Interest	(24,063)	(2,433)	(541)	(27,037)
TOTAL EXPENSES	<u>1,831,085</u>	<u>165,481</u>	<u>44,662</u>	<u>2,041,228</u>
Cost of goods sold	(16,709)	-	(1,066)	(17,775)
Direct benefit to donors	<u>(5,841)</u>	<u>(591)</u>	<u>(131)</u>	<u>(6,563)</u>
PER STATEMENT OF ACTIVITIES	<u>\$ 1,808,535</u>	<u>\$ 164,890</u>	<u>\$ 43,465</u>	<u>\$ 2,016,890</u>

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 677,275	\$ 68,488	\$ 15,220	\$ 760,983
Payroll taxes	52,075	5,266	1,170	58,511
Employee benefits	60,140	6,082	1,351	67,573
	<u>789,490</u>	<u>79,836</u>	<u>17,741</u>	<u>887,067</u>
Grants and contributions	174,232	-	-	174,232
Events	119,839	-	-	119,839
Professional fees	87,667	8,865	1,970	98,502
Depreciation	73,367	3,903	780	78,050
Maintenance and repairs	53,371	14,232	3,558	71,161
Utilities	57,839	3,077	615	61,531
Other	39,091	3,953	875	43,919
Merchant account fees	27,948	-	1,784	29,732
Office and supplies	13,072	13,072	2,905	29,049
Taxes and licenses	20,929	1,113	223	22,265
Vehicle operations	19,706	1,048	210	20,964
Insurance	18,080	1,828	406	20,314
Cost of goods sold	14,863	-	949	15,812
Advertising	9,835	523	105	10,463
Conferences and meetings	-	3,311	-	3,311
Interest	(524)	(28)	(6)	(558)
TOTAL EXPENSES	<u>1,518,805</u>	<u>134,733</u>	<u>32,115</u>	<u>1,685,653</u>
Cost of goods sold	(14,863)	-	(949)	(15,812)
Direct benefit to donors	<u>(7,694)</u>	<u>-</u>	<u>-</u>	<u>(7,694)</u>
PER STATEMENT OF ACTIVITIES	<u>\$ 1,496,248</u>	<u>\$ 134,733</u>	<u>\$ 31,166</u>	<u>\$ 1,662,147</u>

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (35,461)	\$ 504,607
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	110,037	78,050
Amortization of deferred loan fees	373	373
Change in fair value of investments	15,409	986
Forgiveness of PPP loan	-	(124,750)
Fair value adjustment for interest rate swap agreement	(54,222)	(31,321)
(Increase) decrease in		
Contributions receivable	(3,455)	(794)
Other receivables	(8,729)	-
Thrift store inventory	10,738	(20,772)
Other	126	(5,515)
Increase (decrease) in		
Accounts payable and accrued expenses	(61,791)	88,030
Deposits held	(1,824)	4,237
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(28,799)</u>	<u>493,131</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gay Pride Virginia merger	-	230,077
Purchase of property and equipment	(19,153)	(179,129)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(19,153)</u>	<u>50,948</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loan	-	124,750
Principal payments on long-term debt	(78,148)	(74,714)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(78,148)</u>	<u>50,036</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(126,100)	594,115
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,275,308</u>	<u>681,193</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,149,208</u>	<u>\$ 1,275,308</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 26,812	\$ 30,390

See Independent Auditor's Report and Notes to Financial Statements

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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 LGBTQ+ individuals. The Organization is funded through donations from the general public, through the operation of a thrift store (doing business as Diversity Thrift) and rental activities at its facilities in Richmond, Virginia. The Organization also holds isolated bingo games for fundraising purposes.

The Organization is an Accredited Charity by the Better Business Bureau and meets the Better Business Bureau's twenty standards for charity accountability in all categories: (a) governance, (b) measuring effectiveness, (c) finances, (d) fundraising, and (e) information.

Pursuant to the Organization's bylaws, the Organization is governed by a Board of Directors comprised of at least seven but no more than thirty individuals. As of December 31, 2022, the Board of Directors consisted of thirteen 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.

Program Descriptions

Virginia Pride - Events are held annually that celebrate the Richmond region's LGBTQ+ community, including the largest festival in the Commonwealth, attracting more the 50,000 people. Virginia Pride also provides grants, sponsorships, and scholarships to support LGBTQ+ people, organizations, and allies.

Iridian Gallery - The Iridian Gallery fosters LGBTQ+ artists and their community by exhibiting their art and work relating to their experiences. The gallery is a vital constituent of Greater Richmond's vibrant arts culture.

Diversity Thrift - Diversity Thrift is a thrift store that sells furniture, clothing, electronics, books, movies, and more. All proceeds benefit area non-profit organizations that use funds to strengthen the LGBTQ+ and Greater Richmond community.

Black and Bold - This is a grassroots effort to offer the Richmond community an opportunity to celebrate and commemorate bold black LGBTQ+ individuals. This recognition is critical to creating more awareness about the contributions of black LGBTQ+ persons in the Richmond community.

Summary of Significant Accounting Policies

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America for non-profit entities. The significant accounting and reporting policies used by the Organization are described subsequently to enhance the usefulness and understandability of the financial statements.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13 (“ASU 2016-13”), *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade and other receivables. The standard is effective for non-public entities for annual reporting periods beginning after December 15, 2022, with early adoption permitted and will be applied using a modified-retrospective approach through a cumulative-effect adjustment, if necessary, to net assets as of the beginning of the first reporting period in which the guidance is effective. The Organization is currently evaluating the reporting and economic implications of the new standard.

Adoption of New Accounting Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, “Leases (Topic 842)” superseding Topic 840 which provides a new approach to lease accounting with an objective to increase transparency and comparability among organizations by requiring the capitalization of substantially all leases on the statement of financial position and disclosure of key information about leasing arrangements. The FASB concluded that all leases give rise to assets and liabilities that should be recognized on the statement of financial position, but further concluded that the economics of leases differ from one another and those different economics should be reflected in the financial statements. For lessors, ASC 842 does not substantially differ from previous guidance related to operating leases.

Fair Value Measurements

The Organization reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by accounting principles generally accepted in the United States of America, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability’s measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

When available, the Organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Organization is required to measure at fair value (for example, unconditional promises to give and certain in-kind contributions).

The primary uses of fair value measures in the Organization's financial statements are:

- recurring measurement of investments.
- initial measurement of noncash contributions.

The Organization uses the following ways to determine the fair value of its investments:

Mutual funds: Determined by the published net asset value (NAV) per unit at the end of the last trading day of the year, which is the basis for transactions at that date.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements, with no effect on previously reported change in net assets.

Income Taxes

The Organization is exempt from federal income taxes as defined under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBTI). The Organization has recognized no uncertain tax positions for the years ended December 31, 2022 and 2021.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on investments are reported as decreases in net assets without donor restrictions. Net gains on investments increase net assets with donor restrictions, and net losses on investments reduce that net asset class.

Cash Equivalents

Cash equivalents are short-term, interest-bearing, highly liquid investments with original maturities of three months or less.

Thrift Store Inventory

The Organization receives contributions of goods (inventory) and processes these contributions as merchandise available for sale in its retail thrift store. U.S. 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 process that prepares 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 as cost of goods sold.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value as of the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Investments

The Organization invests cash in excess of its immediate needs in mutual funds. Short-term investments are reported at fair value.

Property and Equipment

Property and equipment are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. Equipment is capitalized if it has a cost of \$500 or greater. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the environment in which the Organization operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

Revenue Recognition Policy

Revenue is measured based on consideration specified in a contract with a customer. The Organization recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The Organization had no contract assets or liabilities to report as of December 31, 2022 or 2021.

Performance Obligations

Sales - Performance obligations by the Organization are determined based on an implied contract with its customers. The Organization is obligated to provide inventory items to the customer and the customer is obligated to provide compensation for those inventory items. At the point of sale, the customer understands that they are to remit immediate payment to the Organization in exchange for the customer's selected inventory items. Accordingly, revenue for performance obligations is satisfied at a point in time and is recognized at point of sale. The Organization has a one-week return policy for electronic goods, but returns of such items have historically been insignificant, and the corresponding performance obligation has not been measured.

Program fees - For performance obligations related to program fees, control transfers to the attendee over time. Revenue is recognized over the course of each program.

Special events - For performance obligations related to special events, control transfers to the attendee over time. Revenue is recognized over the course of each event.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Gifts-in-Kind Contributions

The Organization receives contributions in a form other than cash or investments. Most are donated supplies, which are recorded as contributions as of the date of gift and as expenses when the donated items are placed into service or distributed. If the Organization receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Organization’s capitalization policy.

Contributed Services

The Organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization’s program operations and in its fund-raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. Accounting principles generally accepted in the United States of America allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Expense Recognition and Allocation

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 using 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:

Program services	89%
Management and general	9%
Fundraising	2%
	<hr/>
	100%

Advertising

Advertising costs are expensed as incurred.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE B - LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2022 are:

Financial assets:	
Cash and cash equivalents	\$ 1,149,208
Contributions receivable	5,000
Other receivables	8,729
Investments	244,104
Total financial assets	<u>1,407,041</u>
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets (Note C)	<u>78,613</u>
Amount available for general expenditures within one year	<u>\$ 1,328,428</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements is deposited in a money market account.

NOTE C - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2022 and 2021, net assets with donor restrictions were available for the following purposes:

	<u>2022</u>	<u>2021</u>
Purpose restrictions, available for spending:		
Performances and events	\$ 30,857	\$ 29,224
Vehicle purchase	7,213	17,000
Race relations	23,383	38,783
PRIDE Fest	-	58,204
Executive director's discretionary fund	17,160	25,000
Iridian Art Gallery	-	1,650
Total purpose-restricted net assets	<u>\$ 78,613</u>	<u>\$ 169,861</u>

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE C - NET ASSETS WITH DONOR RESTRICTIONS - Continued

Net assets were released from donor restrictions during the years ended December 31, 2022 and 2021 by incurring expenses that satisfy the restricted purposes, or by the occurrence of other events specified by the donors, as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction of program restrictions:		
Performances and events	\$ 30,367	\$ 27,666
Vehicle purchase	9,787	53,000
Race relations	15,400	12,508
PRIDE Fest	287,204	35,589
Executive director's discretionary fund	7,840	1,000
Iridian Art Gallery	1,650	8,198
VA PRIDE merger	-	5,550
	<u>\$ 352,248</u>	<u>\$ 143,511</u>

NOTE D - BOARD DESIGNATED NET ASSETS

Board designated net assets are those allocated by the Board of Directors for the following purposes as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Building renovations and operating contingencies	\$ 298,512	\$ 313,921
Iridian Art Gallery	14,444	-
	<u>\$ 312,956</u>	<u>\$ 313,921</u>

NOTE E - INVESTMENTS

Investments consist of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Mutual funds	\$ 244,104	\$ 259,513

All financial assets relating to investments were measured using Level 1 inputs.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE F - LAND, BUILDING, AND EQUIPMENT, NET

Land, building, and equipment, net as of December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 251,000	\$ 251,000
Land improvements	56,929	55,410
Building and building improvements	2,143,354	2,135,561
Vehicles	85,529	85,529
Furniture and fixtures	103,715	94,877
	<u>2,640,527</u>	<u>2,622,377</u>
Less: Accumulated depreciation	1,027,194	918,160
	<u>\$ 1,613,333</u>	<u>\$ 1,704,217</u>

For real estate purposes, the Organization's building qualifies for a rehabilitation credit from the City of Richmond which amounted to \$10,890 and \$7,926 for the years ended December 31, 2022 and 2021, respectively. The rehabilitation credit was originally issued in 2009 and expires in 2023.

NOTE G - LINE OF CREDIT

The Organization had available a line of credit secured by its investments, with a maximum borrowing limit of \$122,050 and \$130,247, respectively, as of December 31, 2022 and 2021. The approved borrowing limit is not a commitment to loan funds. It is based on the value of the Organization's investment account which could change daily. The amount the Organization may be eligible to borrow may differ from the Organization's approved credit. The line carried an interest rate of 9.25% as of December 31, 2022. There were no borrowings on the line of credit as of December 31, 2022 and 2021.

NOTE H - LONG-TERM DEBT

Long-term debt consists of the following as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Variable rate mortgage loan payable to Truist, due \$8,758 monthly, including interest at one-month LIBOR plus 2.20% (6.34% and 2.30% as of December 31, 2022 and 2021, respectively), due 2028. The mortgage is secured by deed of trust on the real estate, assignment of rents, and funds on deposit with Truist.	\$ 556,121	\$ 634,269
Interest rate swap agreement converting above mortgage loan payable from variable rate to fixed rate, expiring 2028	(28,818)	25,404
Deferred loan fees	(2,238)	(2,611)
	<u>\$ 525,065</u>	<u>\$ 657,062</u>

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE H - LONG-TERM DEBT - Continued

Future maturities of long-term debt are as follows:

<u>Year</u>	
2023	\$ 82,220
2024	85,945
2025	89,840
2026	93,911
2027	98,167
Thereafter	106,038
	<u>\$ 556,121</u>

In 2016, the Organization entered into an interest rate swap agreement 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 the years ended December 31, 2022 and 2021.

A summary of the components of interest expense for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Interest payments	\$ 26,812	\$ 30,390
Amortization of deferred loan fees	373	373
Fair value adjustment for interest rate swap agreement	(54,222)	(31,321)
	<u>\$ (27,037)</u>	<u>\$ (558)</u>

NOTE I - INTEREST RATE SWAP

Effective December 2, 2016, the Organization entered into an interest rate swap agreement accounted for as a fair value hedge to convert the interest payments on its variable rate mortgage loan payable 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, 2022 and 2021, the fair value of the interest rate swap instrument increased by \$54,222 and \$31,321, 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, an offset to expense of \$54,222 and \$31,321 are reported in the accompanying statements of functional expenses as an adjustment to interest for the years ended December 31, 2022 and 2021, 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 Truist. The fair value of the interest rate swap asset (liability) as of December 31, 2022 and 2021 was \$28,818 and (\$25,404), respectively, and is reported in the accompanying statements of financial position in long-term debt.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE J - PAYCHECK PROTECTION PROGRAM

In February 2021, the Organization received a loan in the amount of \$124,750 under the Paycheck Protection Program Round 2. The Organization incurred enough qualified expenses in 2021 to recognize the full balance as other income.

NOTE K - DISAGGREGATED REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table disaggregates the Organization's revenue based on the time of satisfaction of performance obligations for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Performance obligations satisfied over time		
Special event revenue	\$ 11,655	\$ 12,706
Program fees	10,695	17,346
Total revenue from performance obligations satisfied over time	<u>\$ 22,350</u>	<u>\$ 30,052</u>
Performance obligations satisfied at a point in time		
Thrift store sales	<u>\$ 1,162,137</u>	<u>\$ 1,346,820</u>

NOTE L - LESSOR OPERATING LEASE

In 2011, the Organization, as lessor, 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 originally stipulated base rental income of \$25,000 per year, plus 20% of annual billings (in excess of base rental) as percentage rent; however, the lease was amended in September 2021 to (a) extend the term to July 2042, and (b) base rental income of \$30,000 per year (payable monthly), plus 20% of annual billings (in excess of base rental) as percentage rent. All other provisions of the original lease were unchanged. During the years ended December 31, 2022 and 2021, the Organization collected \$122,606 and \$113,072, respectively, in rental income under this operating lease agreement.

NOTE M - IN-KIND SUPPORT

The Organization received the following in-kind support for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Thrift store inventory	\$ 7,982	\$ 6,066
Supplies and household goods	119,251	122,000
Legal services	150	250
	<u>\$ 127,383</u>	<u>\$ 128,316</u>

The above contributed nonfinancial assets were distributed to those in need. There were no donor restrictions. The estimated fair value was used to record the in-kind contributions.

DIVERSITY RICHMOND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2022 AND 2021

NOTE N - RELATED PARTY

One of the Organization's board members is an employee of Truist, the commercial bank utilized by the Organization for a number of its depository accounts and its mortgage loan payable. As of December 31, 2022 and 2021, Truist held approximately \$1,019,000 and \$836,000, respectively, of the Organization's cash and cash equivalents, and also held an outstanding commercial real estate mortgage loan with a balance of \$556,121 and \$634,269, respectively. The Organization believes the terms of its business activities with Truist are consummated at arm's length.

NOTE O - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash. All depository accounts of the Organization are in institutions insured by the Federal Depository Insurance Corporation; however, the deposits exceeded the insurance limits from time to time during the year ended December 31, 2022. As of December 31, 2022, the Organization's balance in excess of insurance was approximately \$769,000.

NOTE P - CONTINGENCIES

In the normal course of operations, the Organization may become subject to litigation from disgruntled customers, employees and various other third 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 unfavorable resolved through the judicial system, mediation or settlement, the Organization maintains general liability insurance to mitigate its risk exposure.

NOTE Q - MERGER WITH GAY PRIDE VIRGINIA

In order to expand its program service, effective April 1, 2021, the Organization merged with Gay Pride Virginia dba VA PRIDE ("VA PRIDE"). For legal, financial and reporting purposes, the Organization is the surviving entity and the merger has been accounted for pursuant to ASC 958-805. At the merger date, VA PRIDE held cash and cash equivalents of \$230,077 and reported no outstanding liabilities. The terms of the merger agreement included expanding the Organization's board from thirteen to sixteen board positions to include three board positions for former VA PRIDE board members, restriction as to use of VA PRIDE's cash and cash equivalents for a period of two (2) years, and employment of VA PRIDE's former executive director as project manager dedicated to VA PRIDE's operating activities.

NOTE R - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 13, 2023, which is the date the financial statements were available to be issued.