VIRGINIA CENTER FOR INCLUSIVE COMMUNITIES

Financial Statements

June 30, 2018

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Certified Public Accountants
& Business Consultants

Richmond Office:
5911 West Broad Street
Richmond, VA 23230

Alexandria Office:
5270 Shawnee Road, Suite 250
Alexandria, VA 22312

Independent Auditor's Report

To the Board of Directors
of **Virginia Center for Inclusive Communities**

We have audited the accompanying financial statements of **Virginia Center for Inclusive Communities** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Virginia Center for Inclusive Communities** as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Richmond, Virginia
November 15, 2018

Steven Biegler • Catherine R. Stemple • Michelle A. Graves • Joanna B. Friedman
Managing Principal *Principal* *Principal* *Senior Manager*
Richmond: P: 804.855.1200 F: 804.288.4512 www.kwccpa.com

Virginia Center for Inclusive Communities

Statement of Financial Position
June 30, 2018

Assets		
Cash and cash equivalents	$	692,836
Accounts receivable		73,096
Pledges receivable, net		275,647
Investments		538,122
Other assets		500
Property and equipment, net		15,534
Total assets	$	1,595,735
Liabilities and net assets		
Accounts payable	$	1,002
Accrued expenses		45,006
Deferred revenue		22,375
Total liabilities		68,383
Net assets		
Unrestricted		1,092,712
Temporarily restricted		434,640
Total net assets		1,527,352
Total liabilities and net assets	$	1,595,735

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Virginia Center for Inclusive Communities

Statement of Activities
for the year ended June 30, 2018

	Unrestricted	Temporarily restricted	Total
Revenue, support and gains			
Program service revenue	$ 471,114	$ -	$ 471,114
Contributions	77,468	76,375	153,843
Grants	286,910	413,150	700,060
Investment income, net	30,578	-	30,578
Special events	442,092	-	442,092
Less cost of direct benefits to donors	(87,120)	-	(87,120)
Net special events revenue	354,972	-	354,972
Net assets released from restriction	102,213	(102,213)	-
	1,323,255	387,312	1,710,567
Expenses			
Program services	701,947	-	701,947
Supporting services			
Management and general	107,091	-	107,091
Fundraising	185,386	-	185,386
	994,424	-	994,424
Change in net assets	328,831	387,312	716,143
Net assets, beginning of year	763,881	47,328	811,209
Net assets, end of year	$ 1,092,712	$ 434,640	$ 1,527,352

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Virginia Center for Inclusive Communities

Statement of Functional Expenses
for the year ended June 30, 2018

	Program	Management and general	Fundraising	Total
Board meeting	$ 1,301	$ 312	$ 388	$ 2,001
Business insurance	15,756	3,781	4,703	24,240
Costs of direct benefits to donors	-	-	87,120	87,120
Depreciation	2,430	583	725	3,738
Employee retirement plan	25,297	6,071	7,550	38,918
Equipment leasing	6,411	1,539	1,913	9,863
Facilitator fees	27,492	-	-	27,492
Facility rental	100,216	-	-	100,216
Fundraising events and awards	11,944	-	9,308	21,252
Health insurance and other benefits	23,030	5,527	6,873	35,430
Marketing and printing	33,223	913	2,373	36,509
Meals and travel	34,244	457	457	35,158
Miscellaneous office	10,605	1,275	4,261	16,141
Office supplies	11,145	769	896	12,810
Payroll taxes	22,136	5,313	6,606	34,055
Postage	2,239	537	668	3,444
Professional fees	16,341	2,439	42,195	60,975
Programs - miscellaneous	34,908	-	-	34,908
Rent	19,013	4,563	5,675	29,251
Salaries	290,376	69,690	86,666	446,732
Technology and website	11,857	2,846	3,538	18,241
Telephone	1,983	476	591	3,050
Total expenses by function	701,947	107,091	272,506	1,081,544
Less expenses included with revenues on the statement of activities				
Costs of direct benefits to donors	-	-	(87,120)	(87,120)
	$ 701,947	$ 107,091	$ 185,386	$ 994,424

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Virginia Center for Inclusive Communities

Statement of Cash Flows
for the year ended June 30, 2018

Cash flows from operating activities		
Change in net assets	$	716,143
Adjustments to reconcile net cash from operating activities:		
Unrealized gains on investments		(24,658)
Depreciation and amortization		3,738
(Increase) decrease in operating assets		
Accounts receivable, net		(72,496)
Pledges receivable		(222,647)
Other assets		4,271
Increase (decrease) in operating liabilities		
Accounts payable		(1,712)
Accrued expenses		28,914
Deferred revenue		(50,375)
Net cash provided by operating activities		381,178
Cash flows from investing activities		
Purchase of property and equipment		(5,750)
Proceeds from sale of investments		2,051
Purchase of investments		(182,587)
Net cash used in investing activities		(186,286)
Net change in cash and cash equivalents		194,892
Cash and cash equivalents, beginning of year		497,944
Cash and cash equivalents, end of year	$	692,836
Supplemental cash flow information		
Cash paid for interest	$	-
Cash paid for income taxes	$	-

The accompanying independent auditor's report and notes are an integral part of the financial statements.

1. Organization and nature of business

Virginia Center for Inclusive Communities (VCIC) is a nonprofit organization that works with schools, businesses, and communities to achieve success by addressing prejudices, in all forms, in order to improve academic achievement, increase workplace productivity, and enhance local trust.

Program service revenues are derived from hosting and facilitating workshops, retreats, and customized programs that raise knowledge and provide motivation and skills to attendees. Programs are primarily delivered through VCIC's four chapter locations in Richmond, on the Virginia Peninsula, in Tidewater (South Hampton Roads), and in Lynchburg, but are also delivered across the Commonwealth of Virginia.

VCIC also raises contributions and grant funding through individual donors and foundations as well as donations through award dinners and other special events.

2. Summary of significant accounting policies

Basis of presentation

The financial statements of VCIC are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses, which are applicable to future periods, have been presented as deferred revenue or prepaid expenses in the accompanying statement of financial position.

Financial statement presentation

VCIC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. At June 30, 2018, VCIC had no permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consists of all cash and highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. VCIC maintains its cash in various bank accounts which, at times, may exceed federally insured limits. VCIC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. The FDIC insurance coverage limit is $250,000 per depositor and as of June 30, 2018, VCIC held cash in excess of these limits of approximately $443,000.

2. Summary of significant accounting policies (continued)

Accounts receivable

Accounts receivable are due within one year. VCIC provides an allowance for doubtful accounts for potentially uncollectible accounts based on historical bad debt experience and management's judgment. All accounts receivable as of June 30, 2018 were deemed to be collectible; therefore no allowance is provided.

Pledges receivable

Contributions and grants are recognized when the donor makes a promise to give that is, in substance, unconditional. All donor-restricted contributions and grants are reported as increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give, including pledges receivable, are recognized as revenues in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

VCIC uses the allowance method to determine uncollectible unconditional promises receivable. An allowance is based on prior years' experience and management's analysis of specific promises made. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at risk-free rates applicable to the years in which the promises were received.

Property and equipment

Property and equipment purchases over $500 with an estimated useful life of greater than one year are capitalized at cost and depreciated using the straight-line basis over three to seven years. All donated property and equipment are recorded at fair market value at the date of the gift.

The costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed.

Compensated absences

Employees are entitled to paid vacation days in accordance with the personnel policy. These benefits accrue and may be carried over from year to year at a maximum of 15 days carried over. Included in accrued expenses are costs associated with these accrued vacation days totaling $19,467 as of June 30, 2018.

Deferred revenue

Deferred revenue consists of payments or deposits for workshops and programs that are to be held in future periods.

2. Summary of significant accounting policies (continued)

Advertising

VCIC expenses advertising costs as they are incurred. For the year ended June 30, 2018, marketing and advertising costs of $32,674 were incurred.

Donated goods and services

A substantial number of volunteers donate time to VCIC's program services and fundraising efforts. The donated services that require specialized skills, as defined by U.S. generally accepted accounting principles, are reflected in the financial statements; the remainder are not. VCIC recognizes donated supplies, assets, and other items at fair value as income and expense or capitalizes such items as property or equipment. Included in marketing and advertising costs are approximately $13,978 in donated goods and services for the year ended June 30, 2018.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted based on the estimated time spent by personnel of VCIC during the year. The functional classifications are:

> Program services are defined as the activities that result in services being performed for customers or beneficiaries that fulfill the purpose or mission for which VCIC exists.
>
> Management and general are those activities that include oversight, business management, general record keeping, budgeting, financing, and all management and administration except for direct conduct of program services or fundraising activities.
>
> Fundraising activities are those activities which involve potential donors to contribute funds, services or other assets or time. They include conducting fundraising campaigns; maintaining donor mailing lists; conducting special events, and other activities involved with soliciting contributions.

Income taxes

VCIC is exempt from federal income taxes as a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation. Therefore, no provision or liability for income taxes has been included in the financial statements. VCIC believes that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. Management does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on VCIC's results of operations. Tax years that remain subject to examination by the IRS are fiscal years 2015 through 2018.

2. Summary of significant accounting policies (continued)

Fair value measurements

Accounting standards require companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. A three-level hierarchy for disclosure of fair value measurements is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of the fair value hierarchy are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology included quoted prices for similar assets or liabilities in active market and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Concentration of credit risk

VCIC's programs and services are concentrated within the Commonwealth of Virginia. Financial instruments which potentially subject VCIC to concentrations of credit risk consist principally of accounts receivable, pledges receivable, investments and cash. At June 30, 2018, three donors accounted for 70 percent of total pledges receivable and two customers accounted for 96 percent of total accounts receivable. Four contributors account for approximately 47 percent of total contribution and grant revenues for the year ended June 30, 2018.

New accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. The requirements of this statement are effective for VCIC for the year ending June 30, 2019. Virginia Center for Inclusive Communities has not evaluated the impact of this statement.

2. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

The FASB has issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. VCIC plans to adopt the standard on its effective date, which is for the year ending June 30, 2020. VCIC has not evaluated the impact of this statement.

The FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization for the year ending June 30, 2020. The Organization has not evaluated the impact of this statement.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. VCIC plans to adopt the standard on its effective date, which is for the year ending June 30, 2021. VCIC has not evaluated the impact of this statement.

3. Pledges receivable

Unconditional pledges receivable are estimated to be collected as follows at June 30, 2018:

Within one year	$ 211,000
In one to five years	111,000
	322,000
Less discount to net present value at rate of 2.75%	(3,053)
Less allowance for uncollectible pledges receivable	(43,300)
	$ 275,647

4. Investments and fair value measurements

Fair value measurements on a recurring basis at June 30, 2018 are composed of the following investments:

	Level 1
Investments measured at fair value	
Cash equivalent	$ 16,075
US small-cap equity	29,295
US mid-cap equity	36,034
US large-cap equity	175,287
Developed markets equity	82,571
Emerging markets equity	19,639
Government bond fund	131,358
International bond fund	32,250
Corporate bond fund	15,613
	$ 538,122

The investments are classified as Level 1 within the fair value hierarchy because they are composed of open-ended mutual funds or exchange traded funds with readily determinable fair values based on daily redemption values.

Investment income included the following for the year ended June 30, 2018:

	2018
Dividend and interest income	$ 10,663
Unrealized gains	24,658
Investment management fees	(4,743)
	$ 30,578

5. Property and equipment

A summary of property and equipment as of June 30, 2018 is as follows:

	Balance	Estimated useful life
Furniture and fixtures	$ 26,801	3 - 5 years
Leasehold improvements	3,777	5 years
Trademarks	1,200	10 years
Accumulated depreciation	(16,244)	
	$ 15,534	

Depreciation expense for 2018 was $3,738.

6. Line of credit

VCIC has a line of credit to support working capital not to exceed $75,000. The line bears an interest rate at Prime plus 1.0 percent, and the line is secured by all assets of VCIC. There were no draws or repayments on the line of credit and no balance on the line of credit as of and for the year ended June 30, 2018.

7. Employee benefit plan

VCIC has adopted a 403(b) retirement plan through TIAA. Eligible employees are those at least 18 years of age and employed on a full-time basis. Matching contributions require a minimum of 6 consecutive months of service. The first 3 percent of employee contributions are not matched while the employee contributions from 3 percent up to 12 percent are matched by VCIC in accordance with the matching contribution formula elected in the adoption agreement. Matching contributions become fully vested on the one year service anniversary of the participant. The total matching contribution and related plan costs for the year ended June 30, 2018 were $38,918.

8. Long-term leases

VCIC has long-term leases related to office space, a copy machine and a mail meter. The office lease is a six-year lease with escalation clauses over the term of the lease. The monthly rent for this lease ranged from $2,425 to $2,498 during the year ending June 30, 2018. The copy machine has a four-year lease with monthly payments of $490 and the mail meter has a five-year lease with monthly payments of $219. Total rent for 2018 was $29,250 for the office space and $9,863 for the copy machine and mail meter.

8. Long-term leases (continued)

Future lease minimum payments for the remaining years under these leases are as follows for the years ending June 30:

2019	$	38,635
2020		38,559
2021		29,130
2022		2,628
2023		2,190
	$	111,142

9. Temporarily restricted net assets

Temporarily restricted net assets and the related releases from restrictions as of and for the year ended June 30, 2018 are summarized as follows:

	June 30, 2017	Contributions	Releases	June 30, 2018
Time-restricted pledges	$ -	$ 322,000	$ -	$ 322,000
Purpose restricted - location specific	325	44,375	(3,913)	40,787
Purpose restricted - connections	11,000	15,000	(13,924)	12,076
Purpose restricted - inclusion projects and conferences	11,003	31,650	(12,466)	30,187
Purpose restricted - educational equity initiative	25,000	75,000	(70,537)	29,463
Purpose restricted - other	-	1,500	(1,373)	127
	$ 47,328	$ 489,525	$ (102,213)	$ 434,640

Time-restricted pledges include pledges with payments due in 2019, 2020 and 2021 as outlined in Note 3. Purpose-restricted net assets relate to various projects at VCIC including the Connections Institute program in 2019, Lynchburg City Schools Project Inclusion, Armstrong Project Inclusion, and the Educational Equity Initiative. In certain cases, the purpose restrictions are based on programs in specific geographic areas, such as Staunton, Lynchburg, Richmond and Roanoke.

10. Subsequent events

Virginia Center for Inclusive Communities assessed events occurring subsequent to June 30, 2018 through November 15, 2018 for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.