DIVERSITY RICHMOND, INC.

Financial Statements

December 31, 2021 and 2020

doing business as

Diversity Richmond

Diversity Thrift

VA PRIDE

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Richmond, Virginia 23220
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Index

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Independent Auditor's Report

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

Opinion

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, 2021 and 2020, and the related statements of activities and changes in net assets, statements of functional expenses, and statements of cash flows for the years then ended and the related notes to the financial statements (collectively hereafter the "financial statements").

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, 2021 and 2020, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). 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 the Organization and to meet our other ethical responsibilities in accordance with the required ethical requirements relating to our audits promulgated by the American Institute of Certified Public Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

(continued)

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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 not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS 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 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 U.S. GAAS, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audits;

2. 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;

3. Obtain an understanding of internal control relevant to the audits 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 Organization's internal control. Accordingly, no such opinion is expressed;

4. 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; and

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Other Matter

As discussed in Note 3, in 2021 the Organization merged with Gay Pride Virginia (dba VA PRIDE).

Clarkson David, CPA, P.C.

Glen Allen, Virginia
November 2, 2022

Diversity Richmond, Inc.

Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,220,900	$ 626,760
Cash and cash equivalents - Board designated (Note 2)	54,408	54,433
Total cash and cash equivalents	1,275,308	681,193
Investments - Board designated (Note 4)	259,513	260,499
Accounts receivable	1,545	751
Thrift store inventory	98,599	77,827
Total current assets	1,634,965	1,020,270
Property and equipment, net (Note 5)	1,704,217	1,603,139
Other assets	23,481	17,966
Total assets	$ 3,362,663	$ 2,641,375
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 120,832	$ 32,802
Deposits held	14,049	9,812
Current portion of long-term debt (Note 6)	78,655	75,246
Total current liabilities	213,536	117,860
Long-term liabilities		
Long-term portion of debt (Note 6)	578,407	687,479
Total liabilities	791,943	805,339
Net assets		
Without donor restrictions	2,400,859	1,769,805
With donor restrictions (Note 8)	169,861	66,231
Total net assets	2,570,720	1,836,036
Total liabilities and net assets	$ 3,362,663	$ 2,641,375

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statements of Activities and Changes in Net Assets
Years ended December 31, 2021 and 2020

	2021	2020
Change in Net Assets Without Donor Restrictions		
Revenues and Support		
Thrift store sales, net (Note 2)	$ 1,331,008	$ 787,798
Contributions and sponsorships	85,229	217,877
In-kind contributions	128,316	-
Program revenues	17,346	5,495
Interest income	653	7,661
Other income (Note 14)	142,566	117,631
Rental income - Billboard (Note 9)	113,072	91,324
Rental income - Events Hall	73,546	14,150
Rental income - Other	22,865	8,109
Bingo revenues, net of direct expenses	5,012	1,738
Net assets released from donor restrictions	143,511	52,332
Total revenues and support	2,063,124	1,304,115
Expenses		
Program services	1,496,248	1,132,745
Management and general	134,733	99,059
Fundraising	31,166	23,034
Total expenses	1,662,147	1,254,838
Change in net assets without donor restrictions	400,977	49,277
Change in Net Assets With Donor Restrictions		
Contributions (Note 8)	247,141	72,500
Net assets released from donor restrictions (Note 8)	(143,511)	(59,832)
Change in net assets with donor restrictions	103,630	12,668
Change in net assets	504,607	61,945
Net assets from Gay Pride Virginia merger (Note 3)	230,077	-
Net assets, beginning of year	1,836,036	1,774,091
Net assets, end of year	$ 2,570,720	$ 1,836,036

See accompanying 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
Total compensation and benefits	789,490	79,836	17,741	887,067
Advertising	9,835	523	105	10,463
Conferences and meetings	-	3,311	-	3,311
Depreciation (Note 2)	73,367	3,903	780	78,050
Events	112,145	-	-	112,145
Grants and contributions	174,232	-	-	174,232
Insurance	18,080	1,828	406	20,314
Interest (Notes 6 and 7)	(524)	(28)	(6)	(558)
Maintenance and repairs	53,371	14,232	3,558	71,161
Merchant account fees	27,948	-	1,784	29,732
Office and supplies	13,072	13,072	2,905	29,049
Other	39,091	3,953	875	43,919
Professional fees	87,667	8,865	1,970	98,502
Taxes and licenses (Note 5)	20,929	1,113	223	22,265
Utilities	57,839	3,077	615	61,531
Vehicle operations	19,706	1,048	210	20,964
Total functional expenses	$ 1,496,248	$ 134,733	$ 31,166	$ 1,662,147

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statement of Functional Expenses
Year ended December 31, 2020

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 488,112	$ 49,360	$ 10,969	$ 548,441
Payroll taxes	37,280	3,770	838	41,888
Employee benefits	62,269	6,297	1,399	69,965
Total compensation and benefits	587,661	59,427	13,206	660,294
Advertising	3,300	176	35	3,511
Conferences and meetings	-	707	-	707
Depreciation (Note 2)	73,493	3,909	782	78,184
Events	37,269	-	-	37,269
Grants and contributions	162,604	-	-	162,604
Insurance	15,195	1,537	341	17,073
Interest (Notes 6 and 7)	64,378	3,424	685	68,487
Maintenance and repairs	35,188	9,383	2,346	46,917
Merchant account fees	18,523	-	1,182	19,705
Office and supplies	12,010	12,010	2,669	26,689
Other	7,819	791	176	8,786
Professional fees	32,571	3,294	732	36,597
Taxes and licenses (Note 5)	20,701	1,101	220	22,022
Utilities	54,911	2,921	584	58,416
Vehicle operations	7,122	379	76	7,577
Total functional expenses	$ 1,132,745	$ 99,059	$ 23,034	$ 1,254,838

See accompanying notes to financial statements.

Diversity Richmond, Inc.

Statements of Cash Flows
Years ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Change in net assets	$ 504,607	$ 61,945
Net assets from Pride Merger		
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Forgiveness of Round 1 Paycheck Protection Plan loan (Note 14)	-	(116,762)
Forgiveness of Round 2 Paycheck Protection Plan loan (Note 14)	(124,750)	-
Depreciation (Note 2)	78,050	78,185
Amortization of deferred loan fees (Note 6)	373	374
Interest income on investments	986	(3,904)
Fair market value adjustment for interest rate swap agreement (Notes 6 and 7)	(31,321)	34,353
(Increase) decrease in operating assets:		
Accounts receivable	(794)	2,799
Thrift store inventory	(20,772)	4,245
Other assets	(5,515)	(5,822)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	88,030	1,961
Deposits held	4,237	(2,067)
Net cash provided by operating activities	493,131	55,307
Cash Flows From Investing Activities		
Gay Pride Virginia merger (Note 3)	230,077	-
Purchases of property and equipment	(179,129)	(4,311)
Net cash provided by (used by) investing activities	50,948	(4,311)
Cash Flows From Financing Activities		
Proceeds from Paycheck Protection Plan loans	124,750	116,762
Principal payments on long-term debt	(74,714)	(71,339)
Net cash provided by financing activities	50,036	45,423
Increase in cash and cash equivalents	594,115	96,419
Cash and cash equivalents, beginning of year	681,193	584,774
Cash and cash equivalents, end of year	$ 1,275,308	$ 681,193

See accompanying notes to financial statements.

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 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 (20) standards for charity accountability in all categories: (a) governance, (b) measuring effectiveness, (c) finances and (d) fundraising and (e) information. The Organization's accreditation was renewed in June 2021 and expires in June 2023.

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, 2021, the Board of Directors consisted of sixteen (16) 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.

The Organization's Treasurer is an employee of Truist, the commercial bank utilized by the Organization for a number of its depository accounts and its mortgage loan payable. At December 31, 2021 and 2020, Truist held approximately $836,000 and $588,000, respectively, of the Organization's cash and cash equivalents and also held an outstanding commercial real estate mortgage loan with a balance of $634,269 and $708,983, respectively. The Organization believes the terms of its business activities with Truist 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 ("U.S. GAAP") and follow the Financial Accounting Standards Board Accounting Standards Codification ("Codification") Topic 958, *Not-for-Profit Entities* ("Topic 958"). 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 contributions were received are reported as net assets without donor restrictions in the statements of activities and changes in net assets.

Revenue recognition policy. Revenue is measured based on consideration specified in written or implied contracts with its customers. The Organization recognizes revenue when it satisfies a performance obligation by transferring control over a product or service.

The Organization has no contract assets or liabilities to report as of December 31, 2021 or 2020.

Note 2—Summary of Significant Accounting Policies (continued)

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.

Performance obligations – Rental Income. For performance obligations related to rental income, control transfers to the attendee over time. Revenue is recognized over the course of the event.

Performance obligations – 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.

Variable consideration. The Organization's written and implied revenue bearing contracts do not contain variable consideration and contract modifications are minimal, if any. Revenue is recognized as the performance obligations are satisfied.

Portfolio approach. The Organization is utilizing the portfolio approach practical expedient for contracts related to its retail sales. The Organization accounts for the contracts as a collective group, rather than individual contracts, as payment patterns, returns and other customer characteristics are similar. The Organization has concluded that revenue would not be materially different than if accounting for revenue on a contract-by-contract basis.

The percentage of thrift store sales, net, by quarter for the years ended December 31, 2021 and 2020 was as follows:

	2021	2020
Quarter 1	22%	31%
Quarter 2	25%	4%
Quarter 3	26%	28%
Quarter 4	27%	37%
	100%	100%

Note 2—Summary of Significant Accounting Policies (continued)

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

a. Availability of supply;
b. International pandemics;
c. Competition; and
d. Seasonal retail factors.

Contributions and sponsorships. The Organization periodically 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 revenues. 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, 2021 and 2020, the Organization maintained $169,861 and $66,231, respectively, in net assets with donor restrictions to be used for program purposes (see Note 8).

In-kind contributions. Other than used clothing and household goods (discussed below) the Organization does not receive in-kind contributions subject to monetization but utilizes in-kind contributions in meeting its program accomplishments or its administrative needs. The Organization utilizes fair value estimates provided by the donor or prepared by management based on the nature of the in-kind contribution using relevant market data. During the year ended December 31, 2021, the Organization received $122,000 of new household goods directly from Amazon which were distributed to those in need. There were no in-kind contributions in 2020.

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 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, 2021 and 2020, the Board has designated $54,408 and $54,433, 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 as the designation is made solely at the discretion of the Organization's Board of Directors.

Note 2—Summary of Significant Accounting Policies (continued)

Investments. Investments are reported at fair value. As of December 31, 2021 and 2020, the Board of Directors has designated the Organization's investments to fund building renovations and for operating contingencies. The fair value hierarchy established by U.S. GAAP dictates three levels of valuing investments. Level 1 valuations are based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities and is given the highest priority in the fair value hierarchy. All of the Organization's investments are valued using Level 1 methodology.

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, 2021 and 2020, was $78,050 and $78,184, respectively.

Advertising costs. Advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2021 and 2020 were $10,463 and $3,511, respectively.

Concentrations of credit risk. At various times during the years ended December 31, 2021 and 2020, the Organization maintained cash balances on deposit with Truist 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 U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair value disclosures. Except as disclosed in Notes 4, 5 and 7, for purposes of fair value disclosures required pursuant to U.S. GAAP, the Organization's financial assets and liabilities are short-term in nature and cost is deemed to approximate fair value.

Reclassifications. Certain amounts previously presented in the Organization's 2020 financial statements have been reclassified to conform to presentations adopted in 2021.

Note 2—Summary of Significant Accounting Policies (continued)

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 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 for the years ended December 31, 2021 and 2020:

	2021	2020
Program	89%	94%
Management and General	9%	5%
Fundraising	2%	1%

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 2022 calendar year. 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 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—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 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 4—Investments

As of December 31, 2021 and 2020, the Organization's investments consisted of the following:

	2021	2020
24,232 shares of Federated Hermes Short-Intermediate Total Return Bond Fund (FGCIX)	$ 259,513	$ 260,499

As discussed in Note 2, the Board of Directors have designated the Organization's investments to fund building renovations and for operating contingencies.

Note 5—Property and Equipment

The Organization's property and equipment as of December 31, 2021 and 2020, was as follows:

	2021	2020
Land	$ 251,000	$ 251,000
Land improvements	55,410	35,910
Building and building improvements	2,135,561	2,031,424
Vehicles	85,529	32,529
Furniture and fixtures	94,877	95,553
	2,622,377	2,446,416
Less: accumulated depreciation	(918,160)	(843,277)
Property and equipment, net	$1,704,217	$1,603,139

For real estate tax purposes, the Organization's building qualifies for a rehabilitation credit from the City of Richmond which amounted to $7,926 and $7,206 for the years ended December 31, 2021 and 2020, respectively. The rehabilitation credit was originally issued in 2009 and expires in 2023. As discussed in Note 6, all of the Organization's property and equipment have been pledged as collateral under a mortgage note payable to Truist.

For purposes of fair value disclosures, the City of Richmond's assessment utilized for its January 2022 real estate tax assessment reported the Organization's real property at $4,146,000. Due to the methodologies utilized for real estate assessment purposes, this amount may be suggestive (but not necessarily indicative) of fair value determined on an open market.

Note 6—Indebtedness

The Organization's indebtedness as of December 31, 2021 and 2020, was as follows:

	2021	2020
Variable rate mortgage loan payable to Truist, due monthly at $8,758, including interest at one month LIBOR plus 2.20% (2.30% and 2.54% at December 31, 2021 and 2020, respectively), due 2028. Secured by deed of trust on real estate, assignment of rents and funds on deposit with Truist	$ 634,269	$ 708,984
Interest rate swap agreement converting above mortgage loan payable from variable rate to fixed rate, expiring 2028 (see Note 7).	25,404	56,725
Deferred loan fees	(2,611)	(2,984)
	657,062	762,725
Less: current portion	(78,655)	(75,246)
Long-term portion of debt	$ 578,407	$ 687,479

For purposes of the statements of cash flows, interest payments totaled $30,390 and $33,760 for the years ended December 31, 2021 and 2020, respectively.

Future principal payments are as follows:

Years Ending December 31:	Amount
2022	$ 78,655
2023	82,220
2024	85,945
2025	89,840
2026	93,911
Thereafter	203,698
Total	$ 634,269

In 2016, the Organization entered into an interest rate swap agreement (see Note 7) 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 and $374 for the years ended December 31, 2021 and 2020, respectively.

Note 6—Indebtedness (continued)

A summary of the components of interest expense for the years ended December 31, 2021 and 2020 follows:

	2021	2020
Interest payments	$ 30,390	$ 33,760
Amortization of deferred loan fees	373	374
Fair value adjustment for interest rate swap agreement (Note 7)	(31,321)	34,353
Total	$ (558)	$ 68,487

The Organization maintains a credit card to facilitate incidental and web-based purchases with a $26,000 credit limit. This credit card, which is paid in full each month, had an available balance as of December 31, 2021 and 2020 of $5,063 and $16,542, respectively. In addition, the Organization maintains an unused line of credit collateralized by its investments with a maximum borrowing limit of $130,247.

Note 7—Interest Rate Swap Agreement

As discussed in Note 6, 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 (see Note 6) 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, 2021 and 2020, the fair value of the interest rate swap instrument increased (decreased) by $31,321 and ($34,353), 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 of $31,321 and an addition to expense of $34,353 are reported in the accompanying statements of functional expenses as an adjustment to "Interest" for the years ended December 31, 2021 and 2020, 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 liability as of December 31, 2021 and 2020, was $25,404 and $56,725, respectively, and is reported in the accompanying statements of financial position in "Long-term portion of debt".

Note 8—Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2021 and 2020 were available for the following purposes:

	2021	2020
Performances and events	$ 29,224	$ 24,890
Vehicle purchase	17,000	5,000
Race relations	38,783	26,291
PRIDE Fest	58,204	-
Executive Director discretionary	25,000	-
Iridian Art Gallery	1,650	4,500
VA PRIDE merger	-	5,550
	$ 169,861	$ 66,231

Net assets with donor restrictions were released by incurring expenses satisfying the restricted purposes during the years ended December 31, 2021 and 2020, as follows:

	2021	2020
Balance, beginning of year	$ 66,231	$ 53,563
Contributions for Executive Director's discretionary fund	26,000	-
Grant received for performances and associated events	32,000	40,000
Sponsorships received for PRIDE Fest	93,793	-
Contributions for Iridian Art Gallery	5,348	2,500
Contributions for vehicle purchase	65,000	5,000
Grant received for race relations	25,000	25,000
Donor restricted contributions	247,141	72,500
Costs incurred for Executive Director's discretionary fund	(1,000)	-
Costs incurred for performances and associated events	(27,666)	(40,377)
Costs incurred for PRIDE Fest	(35,589)	-
Costs incurred for VA PRIDE merger	(5,550)	(12,450)
Costs incurred for Iridian Art Gallery	(8,198)	-
Costs incurred for vehicle purchase	(53,000)	-
Costs incurred for race relations	(12,508)	(7,005)
Expenses incurred meeting restricted purposes	(143,511)	(59,832)
Balance, end of year	$ 169,861	$ 66,231

Note 9—Operating Leases

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, 2021 and 2020, the Organization collected $113,072 and $91,324, respectively, in rental income under this operating lease agreement. As discussed in Note 6, this rental income is pledged as collateral under the Organization's mortgage note payable.

Note 10—Contributed Services

The Organization is the grateful recipient of significant services by hundreds of 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 program services, thrift store operations or in governance roles as board or committee members. As the value of such services is not subject to accurate measurement, pursuant to Topic 958 the value of these contributed services is not reflected in the accompanying financial statements.

Note 11—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 unfavorably resolved through the judicial system, mediation or settlement, the Organization maintains general liability insurance to mitigate its risk exposure.

Note 12—Liquidity

The Organization's financial assets at December 31, 2021 available through the year ending December 31, 2022 are as follows:

Cash and cash equivalents	$ 1,275,308
Investments	259,513
Accounts receivable	1,545
Total	$ 1,536,366

The Organization's 2022 operating and restricted purpose expenditures, capital improvements and debt service are budgeted in the amount of approximately $1,230,000. Management believes it has sufficient liquidity to meet the Organization's operating needs for the upcoming calendar year.

Note 13—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 2021 and expires in April 2026.

As discussed in Note 5, 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 2019 through 2021 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 14—Pandemic

In early 2020, the World Health Organization declared the COVID–19 (Coronavirus) outbreak to be a pandemic. The United States (U.S.) Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies and also has negatively impacted the financial markets in the U.S. and around the globe.

Modification of Customer Service Model. The Organization closed its retail thrift store from March 17, 2020 through June 18, 2020 and furloughed approximately 15 employees. Upon reopening, the retail thrift store was open for limited hours and the Organization implemented six feet social distancing protocols, re-routed store traffic patterns, provided storage pods for three-day storage of donated goods, provided personal protective equipment to its employees (and customers, if needed) and complied with the CDC's recommendations regarding cleaning and disinfecting work surfaces to create a safe environment for its employees and customers.

Impact to Program Services. The Organization modified the majority of its programs into a virtual format and also developed new programs that fit within COVID restrictions. Specifically, the Organization held multiple "Drive-in Drag" queen performances for social engagement and held three food drives benefitting in excess of 1,800 families in need. The Organization's event hall was also made available to officials from the City of Richmond and the Richmond-Henrico Health District to hold periodic news conferences and to provide free COVID testing. Volunteer seamstresses also provided hundreds of cloth face masks and surgical gowns utilizing fabric from Diversity Thrift benefitting nursing home and assisted living residents and their employees in addition to other individuals in need.

Note 14—Pandemic (continued)

Paycheck Protection Program. The Organization met the criteria of Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") regarding the Paycheck Protection Program ("PPP") and the Organization received a Round 1 PPP loan in the amount of $116,762 from the Small Business Administration in May 2020. The terms of the Round 1 PPP loan included debt forgiveness upon meeting specific criteria and the Organization met such criteria and received forgiveness for all outstanding amounts; accordingly, this amount has been recorded in the accompanying 2020 statement of activities and changes in net assets in "Other Income".

The Organization also met the criteria for a Round 2 PPP loan under criteria established by the Consolidated Appropriations Act, 2021. The Organization applied for a Round 2 PPP loan and received $124,750 in February 2021. The Consolidated Appropriations Act, 2021 also included forgiveness criteria and the Organization met the requisite forgiveness criteria in 2021; accordingly, this amount has been recorded in the accompanying 2021 statement of activities and changes in net assets in "Other Income".

Employee Retention Credit. The Organization met the criteria for the Employee Retention Credit ("ERC") and filed amended payroll tax filings with the Internal Revenue Service and received $14,572 during 2021. This amount has been recorded in the accompanying 2021 statement of activities and changes in net assets in "Other Income".

Vaccine. In late 2020, the international medical community formulated a COVID vaccine and substantial quantities have been distributed throughout the world. The ultimate efficacy of the vaccine and its long-term impacts, if any, are unknown at this time. Leading medical experts generally agree that the extent of COVID throughout the world may be substantially reduced by 2023; however, new variants of COVID have been identified and have impacted individuals across the globe.

Future Outlook. The Organization is continually monitoring the impact of the pandemic but has not made any adjustments to the accompanying financial statements as a result of COVID-related uncertainties. The Organization will review and adjust planned operations should it be determined the pandemic will significantly impact the Organization's financial position and/or activities.

Note 15—Subsequent Events

Management has evaluated events occurring subsequent to the date of the financial statements through November 2, 2022 (the date which the financial statements were available for issuance) for matters that would require adjustment to, or disclosure in, the accompanying financial statements. Other than the matters discussed in Note 14, management's evaluation did not identify any additional matters warranting adjustment or disclosure.