



PFLAG, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

PFLAG, INC.

TABLE OF CONTENTS
SEPTEMBER 30, 2016

	<u>Pages</u>
Independent Auditors' Report	3-4
Financial Statements	
Statement of Financial Position	5-6
Statement of Activities	7
Statement of Functional Expenses	8
Statement of Cash Flows	9
Notes to Financial Statements	10-19



7910 WOODMONT AVENUE
SUITE 500
BETHESDA, MD 20814
(T) 301.986.0600
(F) 301.986.0432

1901 L STREET, NW
SUITE 750
WASHINGTON, DC 20036
(T) 202.822.0717
(F) 202.822.0739

Independent Auditors' Report

Board of Directors
PFLAG, Inc.
Washington, D.C.

We have audited the accompanying financial statements of PFLAG, Inc. (PFLAG), which comprise the statement of financial position as of September 30, 2016, 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.

Auditors' 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 auditors' 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 auditors consider 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 PFLAG, Inc., as of September 30, 2016, 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.



Board of Directors
PFLAG, Inc.

Report on Summarized Comparative Information

We have previously audited PFLAG's September 30, 2015, financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated April 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
April 27, 2017

Certified Public Accountants

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION
 SEPTEMBER 30, 2016
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 803,390	\$ 560,777
Contributions Receivable	56,500	829,763
Other Receivables	68,157	97,424
Prepaid Expenses	70,756	71,283
Inventory	41,820	36,295
	<u>1,040,623</u>	<u>1,595,542</u>
Investments	1,603,907	1,507,659
Investments, Deferred Compensation	18,430	-
Fixed Assets		
Furniture, Fixtures and Office Equipment	138,885	138,885
Office Equipment Under Capital Lease	12,135	12,135
Software	227,791	227,791
Leasehold Improvements	221,300	221,300
Website	198,950	42,190
	<u>799,061</u>	<u>642,301</u>
Accumulated Depreciation and Amortization	<u>(538,404)</u>	<u>(474,792)</u>
Net Fixed Assets	260,657	167,509
Security Deposit	<u>15,921</u>	<u>15,921</u>
Total Assets	<u><u>\$ 2,939,538</u></u>	<u><u>\$ 3,286,631</u></u>

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)
 SEPTEMBER 30, 2016
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 306,062	\$ 367,184
Deferred Rent	41,322	35,734
Obligation Under Capital Lease	3,236	2,819
Deferred Revenue	-	51,580
	<u>350,620</u>	457,317
Deferred Rent, Net of Current Portion	153,725	195,047
Deferred Compensation Payable	18,430	-
Obligation Under Capital Lease, Net of Current Portion	<u>557</u>	<u>3,793</u>
Total Liabilities	523,332	656,157
Net Assets		
Unrestricted	1,926,277	1,409,545
Temporarily Restricted	127,429	858,429
Permanently Restricted	<u>362,500</u>	<u>362,500</u>
Total Net Assets	<u>2,416,206</u>	<u>2,630,474</u>
Total Liabilities and Net Assets	<u>\$ 2,939,538</u>	<u>\$ 3,286,631</u>

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues					
Contributions and Gifts	\$ 2,390,282	\$ 124,107	\$ -	\$ 2,514,389	\$ 2,665,988
Donated Services	16,040	-	-	16,040	465,013
Chapter Dues	67,575	-	-	67,575	67,865
Training Service Fees	270,628	-	-	270,628	212,294
Product and Publications	40,106	-	-	40,106	52,995
Special Events (Net of Direct Expenses of Approximately \$137,000)	35,598	-	-	35,598	102,499
Net Investment Income (Loss)	27,904	5,693	-	33,597	(14,521)
Other Income	4,724	-	-	4,724	6,708
Net Assets Released from Restrictions	860,800	(860,800)	-	-	-
Total Revenues	3,713,657	(731,000)	-	2,982,657	3,558,841
Expenses					
Program					
Chapter Network	1,473,065	-	-	1,473,065	1,914,248
Education and Advocacy	840,447	-	-	840,447	717,046
Total Program	2,313,512	-	-	2,313,512	2,631,294
Supporting					
Fundraising and Development	533,470	-	-	533,470	619,543
General and Administrative	349,943	-	-	349,943	327,828
Total Supporting	883,413	-	-	883,413	947,371
Total Expenses	3,196,925	-	-	3,196,925	3,578,665
Change in Net Assets	516,732	(731,000)	-	(214,268)	(19,824)
Net Assets, Beginning of Year	1,409,545	858,429	362,500	2,630,474	2,650,298
Net Assets, End of Year	\$ 1,926,277	\$ 127,429	\$ 362,500	\$ 2,416,206	\$ 2,630,474

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	Chapter Networks	Education and Advocacy	Total Program	Fundraising and Development	General and Administrative	2016 Total	2015 Total
Salaries	\$ 745,711	\$ 454,107	\$ 1,199,818	\$ 207,894	\$ 166,635	\$ 1,574,347	\$ 1,413,008
Employee Benefits and Payroll Taxes	124,660	76,505	201,165	34,693	27,976	263,834	235,662
Professional Fees	116,046	8,637	124,683	76,852	71,907	273,442	714,255
Travel	95,128	79,903	175,031	16,989	20,987	213,007	240,900
Printing	80,246	11,862	92,108	56,032	171	148,311	158,062
Occupancy	98,284	61,806	160,090	26,006	20,845	206,941	212,240
Conferences, Conventions, and Meetings	24,160	8,828	32,988	53,417	1,074	87,479	81,139
Postage and Delivery	51,597	36,436	88,033	25,213	376	113,622	127,888
Depreciation and Amortization	30,131	18,348	48,479	8,400	6,733	63,612	36,957
Telecommunications	9,401	11,339	20,740	2,056	1,633	24,429	36,186
Scholarships and Awards	29,900	-	29,900	-	-	29,900	128,975
Advertising	-	200	200	-	-	200	619
Bank Charges and Credit Card Fees	9,442	5,750	15,192	2,632	2,110	19,934	22,288
IT Services	18,193	13,734	31,927	7,180	4,077	43,184	17,012
Supplies	5,176	1,886	7,062	3,709	854	11,625	29,395
Equipment and Maintenance	-	1,388	1,388	-	2,241	3,629	6,701
Staff Development and Appreciation	3,649	2,684	6,333	1,484	1,538	9,355	10,835
State Charitable Registrations	-	-	-	-	9,344	9,344	10,989
Miscellaneous	284	171	455	1,329	6,971	8,755	5,551
Dues and Subscriptions	2,000	654	2,654	79	319	3,052	2,462
List Rental	12,470	-	12,470	7,614	-	20,084	24,082
Insurance	12,043	3,797	15,840	1,738	1,393	18,971	11,477
Taxes and Licenses	-	-	-	-	1,758	1,758	443
Cost of Goods Sold	3,994	42,077	46,071	-	-	46,071	50,519
Interest	550	335	885	153	1,001	2,039	1,020
Total Expenses	\$ 1,473,065	\$ 840,447	\$ 2,313,512	\$ 533,470	\$ 349,943	\$ 3,196,925	\$ 3,578,665

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (214,268)	\$ (19,824)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	63,612	36,957
(Gain) Loss on Investments	(23,255)	16,913
<u>(Increase) Decrease in Assets</u>		
Contributions Receivable	773,263	965,433
Other Receivables	29,267	(66,549)
Prepaid Expenses	527	(1,738)
Inventory	(5,525)	2,245
Investments, Deferred Compensation	(18,430)	-
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	(61,122)	(90,765)
Deferred Rent	(35,734)	(28,818)
Deferred Revenue	(51,580)	51,580
Deferred Compensation Payable	18,430	-
	<u>475,185</u>	<u>865,434</u>
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Purchases of Furniture, Fixtures, and Office Equipment	(156,760)	(40,677)
Proceeds from the Sales of Investments	1,205,267	-
Purchases of Investments	(1,278,260)	(1,524,573)
	<u>(229,753)</u>	<u>(1,565,250)</u>
Net Cash Used in Investing Activities		
Cash Flows from Financing Activities		
Principal Payments on Capital Lease Obligations	(2,819)	(3,160)
	<u>(2,819)</u>	<u>(3,160)</u>
Net Cash Used in Financing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	242,613	(702,976)
Cash and Cash Equivalents, Beginning of Year	560,777	1,263,753
	<u>803,390</u>	<u>560,777</u>
Cash and Cash Equivalents, End of Year		
Supplementary Disclosure of Cash Flow Information		
Interest Paid	\$ 2,040	\$ 1,020

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

PFLAG, Inc. (PFLAG) was founded in 1972 with the simple act of a mother publicly supporting her gay son, PFLAG is the nation's largest family and ally organization. Uniting people who are lesbian, gay, bisexual, transgender, and queer (LGBTQ) with families, friends, and allies, PFLAG is committed to advancing equality and full societal affirmation of LGBTQ people through its threefold mission of support, education, and advocacy.

PFLAG has over 400 chapters and 200,000 members and supporters crossing multiple generations of American families in major urban centers, small cities, and rural areas in all 50 states.

This vast grassroots network is cultivated, resourced, and serviced by PFLAG National, located in Washington, D.C., the National Board of Directors and 13 Regional Directors.

PFLAG envisions a world where diversity is celebrated and all people are respected, valued, and affirmed inclusive of their sexual orientation, gender identity, and gender expression. By meeting people where they are and collaborating with others, PFLAG realizes its vision through:

- Support for families, allies and people who are LGBTQ
- Education for ourselves and others about the unique issues and challenges facing people who are LGBTQ
- Advocacy in our communities to change attitudes and create policies and laws that achieve full equality for people who are LGBTQ

These activities are funded primarily through grants and contributions.

The following programs are included in the accompanying financial statements:

Supporting the Chapter Network

The national office supports a chapter network that is majority volunteer led by providing learning opportunities, leadership and partnership support, resources and technical assistance to create thriving chapters to carry out our collective mission. Each year, we also assist new communities in forming new PFLAG chapters and work with new chapter leaders to continue to expand and enrich the mission activities in communities all over the country. These chapters in turn provide support, education and advocacy in their communities.

We also help to strengthen chapters by fostering greater networking among chapters and allies in the same regions and states. PFLAG provides newsletters which inform members about PFLAG and public issues, and publishes a wide variety of resources for its chapter education programs. Through our PFLAG Academy Online we provide learning opportunities for our members. PFLAG creates special events in communities across the country to educate the general public about its mission and offers opportunities for public engagement at the local and national levels.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Education

Through our partnerships, digital media, resources and visibility strategies, PFLAG provides education to the general public, the chapter network and PFLAG members. The visibility of the family and ally voice united with the LGBTQ community is a vital need to advance equality.

- PFLAG coordinates public appearances and presentations by national leadership to educate targeted audiences and the general public about families with LGBT loved ones.
- PFLAG provides publications to members and the general public about sexual orientation, gender identity and relevant issues.
- Through traditional and new media, PFLAG provides critical messaging, tools and resources related to family acceptance, community education and the importance of the ally voice.
- The signature projects of Cultivating Respect: Safe Schools for All and the PFLAG National Scholarship program are resources designed to bring visibility, tools and resources to LGBTQ youth to promote a safer educational environment for learning.
- The PFLAG National Scholarship Program provides an important, positive statement to a group of young people and their allies, LGBT people who are often marginalized and subjected to harassment and discrimination. The scholarship program also provides PFLAG's chapters with a critical link to their local schools.
- A Note to My Kid provides a repository of stories as new families embark on a journey of acceptance and celebration.
- Through it's Straight for Equality project, PFLAG educates and engages straight allies in a variety of forums including the workplace, healthcare facilities, and in faith communities.

Advocacy

PFLAG maintains a strong presence in Washington, D.C., to advocate with Congress, the White House and federal agencies to ensure laws and regulations reflect the concerns of PFLAG family voices. Partnership, coalition work and support of our chapters is also a part of our activities to create stronger and more unified statewide PFLAG family voices to support families, educate communities and advocate for equality. Among the many advocacy issues are parenting rights, employment nondiscrimination, safer schools, inclusive and affirming faith communities, sustaining marriage equality, hate crimes and more. PFLAG also works with national partners to share our stories through written and public testimony as well as submission of amicus briefs on behalf of our membership.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

PFLAG is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities and is not considered a “private foundation” by the Internal Revenue Service.

PFLAG requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. PFLAG does not believe its financial statements include, or reflect, any uncertain tax positions.

PFLAG’s Form 990, *Return of Organization Exempt from Income Tax*, the Form 990-T, *Federal Exempt Organization Unrelated Business Income Tax Return*, and the District of Columbia Form D-20 *SUB Corporation Franchise Tax Return* are subject to examination by the taxing authorities generally for three years after filing.

Cash and Cash Equivalents

PFLAG considers as cash and cash equivalents all cash and highly liquid investments with maturities of three months or less, when purchased.

Contributions Receivable

Contributions receivable consist primarily of bequests and pledges from corporations, foundations and individuals. The management of PFLAG reviews the collectability of the contributions receivable on a regular basis. No reserve for doubtful accounts has been established since management expects to collect all contributions receivable in full.

Other Receivables

Other receivables consist primarily of amounts due from special events and training service fees. The management of PFLAG reviews the collectability of the other receivables on a regular basis. No reserve for doubtful accounts has been established since management expects to collect all other receivables in full.

Inventory

Inventory consists of publications that are sold and distributed to members and interested parties. Inventory is stated at the lower of cost or market and is valued using the first-in, first-out method of inventory valuation.

Investments

Investments are reported at the fair value based on quoted market prices. Realized and unrealized gains and losses are included with investment income in the statement of activities. Investment income is reported as an increase or decrease in unrestricted net assets, unless restricted by donor or law.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

PFLAG capitalizes all fixed asset acquisitions of \$1,500 and above. Fixed assets are recorded at cost if purchased or at fair market value at date of donation, if contributed. Depreciation is provided using the straight-line method over the estimated useful life of the asset or for leasehold improvements the shorter of the useful life or the remaining lease term. Expenditures for fixed assets and related betterments that extend the useful lives of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. PFLAG reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Training Service Fees

Training service fees are recognized as revenue in the year the training is provided.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by PFLAG. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Estimates

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

Functional Expense Allocation

The costs of providing 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 programs and supporting services benefited.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Information

The financial statements include certain prior year summarized comparative totals as of and for the year ended September 30, 2015. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Reclassifications

Certain 2015 amounts have been reclassified for comparative purposes.

2. INVESTMENTS

Net investment income for the year ended September 30, 2016, consisted of the following:

<u>Description</u>	<u>Amount</u>
Interest and Dividends	\$ 15,825
Realized and Unrealized Gain	23,255
	39,080
Less Investment Fees	(5,483)
Net Investment Income	\$ 33,597

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could materially affect the reported balance of investments and net assets in the statement of financial position, and amounts reported in the statement of activities.

3. FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include equity securities or mutual funds);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate or municipal bonds);

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities and split interest agreements).

PFLAG, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

3. FAIR VALUE MEASUREMENTS (CONTINUED)

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following presents PFLAG's investments measured at fair value as of September 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 228,875	\$ -	\$ -	\$ 228,875
Certificates of Deposit	-	1,007,452	-	1,007,452
Exchange Traded Funds	33,331	-	-	33,331
Mutual Funds - Equities	161,334	-	-	161,334
Mutual Funds - Fixed Income	172,915	-	-	172,915
Total Investments at Fair Value	596,455	1,007,452	-	1,603,907
Investments Deferred Compensation				
Mutual Funds	18,430	-	-	18,430
Total Assets at Fair Value	\$ 614,885	\$ 1,007,452	\$ -	\$ 1,622,337
Deferred Compensation Liability	\$ 18,430	\$ -	\$ -	\$ 18,430
Total Liabilities at Fair Value	\$ 18,430	\$ -	\$ -	\$ 18,430

PFLAG's Level 2 investments are valued based on readily available pricing sources for comparable investments.

4. DONATED SERVICES

For the year ended September 30, 2016, the fair value of donated services are included in contributions and gifts in the statement of activities. The corresponding program and supporting expenses for the year ended September 30, 2016, are as follows:

<u>Description</u>	<u>Chapter Networks</u>	<u>Education and Advocacy</u>	<u>Fundraising and Development</u>	<u>General and Administrative</u>	<u>Total</u>
Professional Fees	\$ 8,020	\$ -	\$ -	\$ 8,020	\$ 16,040
Total Donated Services	\$ 8,020	\$ -	\$ -	\$ 8,020	\$ 16,040

5. CAPITAL LEASE

PFLAG is the lessee of certain office equipment under a capital lease. PFLAG is obligated under the lease through 2018. The asset and liability under the lease is recorded at the present value of the minimum lease payments. The asset is amortized over the lesser of the estimated useful life or the lease term. Amortization of the asset under the lease is included in depreciation and amortization expense. The accumulated amortization as of September 30, 2016, was approximately \$9,000.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

5. CAPITAL LEASE (CONTINUED)

Minimum future lease payments under the lease as of September 30, 2016, are as follows:

<u>For the Years Ending September 30,</u>	<u>Amount</u>
2017	\$ 3,360
2018	560
Total Minimum Lease Payments	3,920
Less Amount Representing Interest	(127)
Present Value of Total Minimum Lease Payments	<u>\$ 3,793</u>

6. OPERATING LEASE

PFLAG has entered into a lease for office space and is obligated under the lease through 2020.

Under the terms of the lease the base rent increases annually based on scheduled increases provided for in the lease. Also, under the terms of the lease, the lessor provided lease incentives totaling approximately \$222,000 to build out the office space. Under accounting principles generally accepted in the United States of America (GAAP) all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments, as well as any unamortized lease incentives, are reflected as deferred rent in the accompanying statement of financial position.

As of September 30, 2016, future minimum lease payments under the operating lease are as follows:

<u>For the Years Ending September 30,</u>	<u>Amount</u>
2017	\$ 228,596
2018	234,316
2019	240,170
2020	225,456
Total	<u>\$ 928,538</u>

Occupancy expense totaled approximately \$207,000 for the year ended September 30, 2016.

7. COMMITMENTS

PFLAG has entered into a contract for direct mail and fundraising consulting. Under the terms of the contract, upon early cancellation, PFLAG would be liable for approximately \$17,000. Management does not believe any cancellation under this contract will occur.

8. JOINT COST ALLOCATION

During the year ended September 30, 2016, PFLAG incurred joint costs of approximately \$201,000 for direct mail that included both a program component and a fundraising appeal. Of these costs, approximately \$124,000 was allocated to program services and \$77,000 was allocated to fundraising and development expense in the accompanying statement of functional expenses.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

9. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2016, PFLAG's temporarily restricted net assets consisted of the following:

Description	Amount
Safe Schools Program	\$ 20,630
Scholarships	44,606
Endowment Funds	5,693
Time Restriction	56,500
Total Temporarily Restricted	\$ 127,429

Net assets released from restrictions for the year ended September 30, 2016, were as follows:

Description	Amount
Safe Schools Program	\$ 2,366
Scholarships	37,671
Time Restriction	820,763
Total Releases	\$ 860,800

10. PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

Permanently restricted net assets represent funds that are invested in perpetuity for the following purpose as of September 30, 2016:

Description	Amount
Arnold T. Schwab Scholarship	\$ 362,500
Total Permanently Restricted Net Assets	\$ 362,500

The Arnold T. Schwab Endowment Fund was established to provide scholarships.

The endowment consists of donor-restricted funds and, as required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

PFLAG has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, PFLAG classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PFLAG in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, PFLAG considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund

PFLAG, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

10. PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of PFLAG
- (7) The investment policies of PFLAG

Spending Policy

PFLAG received the endowment contributions during the year ended September 30, 2015, and is in the process of adopting a spending policy for the endowment.

PFLAG had the following changes in the endowment during the year ended September 30, 2016:

<u>Description</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ (15,471)	\$ -	\$ 362,500	\$ 347,029
Contributions	-	-	-	-
Investment Income	1,164	-	-	1,164
Net Appreciation of Investments	14,307	5,693	-	20,000
Endowment Net Assets, End of Year	\$ -	\$ 5,693	\$ 362,500	\$ 368,193

11. PENSION PLANS

PFLAG maintains a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code which is available to all eligible employees. Employer matching contributions are made on behalf of employees with at least one year of service. PFLAG may also make additional employer contributions. Both employer and employee contributions are fully vested. Pension expense was approximately \$44,000 for the year ended September 30, 2016, and is included in employee benefits in the accompanying schedule of functional expenses.

During the year ended September 31, 2016, PFLAG established a nonqualified 457(b) deferred compensation plan (the 457 Plan) for certain highly compensated employees. The 457 Plan requires that PFLAG establish and maintain a book entry account on behalf of the employees for all deferrals and investment experience related to the 457 Plan. Employer contributions are permitted. PFLAG is not liable for any specific investment success nor is it required to restore any loss of principal that may occur due to market conditions. Under current law, such funds remain the asset of PFLAG and, as such, are subject to the creditors of PFLAG.

12. EMPLOYMENT CONTRACT

Effective March 8, 2015, PFLAG entered into an employment contract (the Contract) with an employee that provides for a minimum annual salary adjusted annually and fringe benefits. The term of employment under the Contract was March 8, 2015 to March 7, 2018. In the event of termination without cause, as defined in the Contract, PFLAG shall pay severance equal to the terms stipulated in the Contract.

PFLAG, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

12. EMPLOYMENT CONTRACT (CONTINUED)

Subsequent to year end, PFLAG entered into a severance agreement with its former Executive Director. The severance agreement provided for payments through June 2017, of approximately \$160,000. No amounts were accrued as of September 30, 2016.

13. COLLECTIVE BARGAINING AGREEMENT

On November 29, 2012, PFLAG entered into a collective bargaining agreement with the Office and Professional Employees International Union, Local 2, AFL-CIO (the Union) to act as the sole exclusive bargaining agent with respect to rates of pay and other conditions of employment for those employees occupying positions stipulated and agreed to by PFLAG and the Union. The Agreement will remain in effect until September 30, 2017.

14. CONCENTRATIONS

PFLAG maintains cash balances at a financial institution located in Washington, D.C., which at times during the year exceeded the Federal Deposit Insurance Corporation limit. Management believes the risk in this situation to be minimal.

As of September 30, 2016, two donors comprised 83% of contributions receivable, and one donor comprised approximately 13% of PFLAG's revenue, for the year ended September 31, 2016.

As of September 30, 2016, approximately 36% of PFLAG's employees are members of Office and Professional Employees International Union, Local 2, AFL-CIO (the Union).

15. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 27, 2017, which is the date the financial statements were available to be issued.