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**PFLAG, INC.**  
**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**PFLAG, INC.**

**AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

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## Independent Auditor's Report

Board of Directors  
PFLAG, Inc.  
Washington, DC

### Report on the Financial Statements

We have audited the accompanying financial statements of PFLAG, Inc. (PFLAG), which comprise the statement of financial position as of September 30, 2015, 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 PFLAG as of September 30, 2015, 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.

***Report on Summarized Comparative Information***

We have previously audited PFLAG's September 30, 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated February 25, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Councilor, Buchanan + Mitchell, P.C.*

Washington, DC  
April 12, 2016

Certified Public Accountants

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION  
 SEPTEMBER 30, 2015  
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2014)

|  | <u>2015</u>                | <u>2014</u>                |
|--|----------------------------|----------------------------|
| <b>Assets</b>  |                            |                            |
| <b>Current Assets</b>  |                            |                            |
| Cash and Cash Equivalents  | \$ 560,777                 | \$ 1,263,753               |
| Contributions Receivable   | 829,763                    | 1,651,903                  |
| Other Receivables  | 97,424                     | 30,875                     |
| Prepaid Expenses   | 71,283                     | 69,545                     |
| Inventory  | <u>36,295</u>              | <u>38,540</u>              |
| <b>Total Current Assets</b>  | <b>1,595,542</b>           | <b>3,054,616</b>           |
| <b>Contributions and Other Receivables,<br/>Net of Current Portion</b> | <b>-</b>                   | <b>143,293</b>             |
| <b>Investments</b>   | <b>1,507,659</b>           | <b>-</b>                   |
| <b>Fixed Assets</b>  |                            |                            |
| Furniture, Fixtures and Office Equipment                               | 138,885                    | 136,298                    |
| Office Equipment Under Capital Lease                                   | 12,135                     | 12,135                     |
| Software   | 227,791                    | 227,791                    |
| Leasehold Improvements   | 221,300                    | 221,300                    |
| Website  | <u>42,190</u>              | <u>4,100</u>               |
|  | <b>642,301</b>             | <b>601,624</b>             |
| Accumulated Depreciation and Amortization                              | <u>(474,792)</u>           | <u>(437,836)</u>           |
| <b>Net Fixed Assets</b>  | <b>167,509</b>             | <b>163,788</b>             |
| <b>Security Deposit</b>  | <u>15,921</u>              | <u>15,921</u>              |
| <b>Total Assets</b>  | <u><b>\$ 3,286,631</b></u> | <u><b>\$ 3,377,618</b></u> |

See Accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION  
 SEPTEMBER 30, 2015  
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2014)

|   | <u>2015</u>                | <u>2014</u>                |
|---|----------------------------|----------------------------|
| <b>Liabilities and Net Assets</b>                                 |                            |                            |
| <b>Current Liabilities</b>  |                            |                            |
| Accounts Payable and Accrued Expenses                             | \$ 367,184                 | \$ 457,949                 |
| Deferred Rent   | 35,734                     | 28,818                     |
| Obligation Under Capital Lease                                    | 2,819                      | 2,910                      |
| Deferred Revenue  | <u>51,580</u>              | <u>-</u>                   |
| <b>Total Current Liabilities</b>                                  | <b>457,317</b>             | <b>489,677</b>             |
| <b>Deferred Rent, Net of Current Portion</b>                      | <b>195,047</b>             | <b>230,781</b>             |
| <b>Obligation Under Capital Lease,<br/>Net of Current Portion</b> | <u><b>3,793</b></u>        | <u><b>6,862</b></u>        |
| <b>Total Liabilities</b>  | <b>656,157</b>             | <b>727,320</b>             |
| <b>Net Assets</b>   |                            |                            |
| Unrestricted  | 1,409,545                  | 800,280                    |
| Temporarily Restricted  | 858,429                    | 1,850,018                  |
| Permanently Restricted  | <u>362,500</u>             | <u>-</u>                   |
| <b>Total Net Assets</b>   | <u><b>2,630,474</b></u>    | <u><b>2,650,298</b></u>    |
| <b>Total Liabilities and Net Assets</b>                           | <u><b>\$ 3,286,631</b></u> | <u><b>\$ 3,377,618</b></u> |

See Accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2014)

|   | Unrestricted        | Temporarily Restricted | Permanently Restricted | 2015 Total          | 2014 Total          |
|---|---------------------|------------------------|------------------------|---------------------|---------------------|
| <b>Revenues</b>   |                     |                        |                        |                     |                     |
| Contributions and Gifts   | \$ 1,565,152        | \$ 588,335             | \$ 362,500             | \$ 2,515,987        | \$ 2,278,208        |
| Donated Services  | 465,013             |                        |                        | 465,013             | 147,964             |
| Chapter Dues  | 67,865              |                        |                        | 67,865              | 85,703              |
| Care With Pride Fees and Contributions                            | 150,000             |                        |                        | 150,000             | 150,000             |
| Training Service Fees   | 212,294             |                        |                        | 212,294             | 230,764             |
| Product and Publications  | 52,995              |                        |                        | 52,995              | 48,299              |
| Special Events (Net of Direct Expenses of approximately \$99,000) | 102,499             |                        |                        | 102,499             | 244,570             |
| Net Investment (Loss) Income                                      | (14,521)            |                        |                        | (14,521)            | 315                 |
| Other Income  | 6,709               |                        |                        | 6,709               | 23,495              |
| Net Assets Released From Restrictions                             | 1,579,924           | (1,579,924)            |                        | -                   | -                   |
| <b>Total Revenues</b>   | <b>4,187,930</b>    | <b>(991,589)</b>       | <b>362,500</b>         | <b>3,558,841</b>    | <b>3,209,318</b>    |
| <b>Expenses</b>   |                     |                        |                        |                     |                     |
| <b>Program</b>  |                     |                        |                        |                     |                     |
| Chapter Networks  | 1,914,248           |                        |                        | 1,914,248           | 1,890,687           |
| Education and Advocacy  | 717,046             |                        |                        | 717,046             | 834,704             |
| <b>Total Program</b>  | <b>2,631,294</b>    | <b>-</b>               | <b>-</b>               | <b>2,631,294</b>    | <b>2,725,391</b>    |
| <b>Supporting</b>   |                     |                        |                        |                     |                     |
| Fundraising and Development                                       | 619,543             |                        |                        | 619,543             | 452,955             |
| General and Administrative  | 327,828             |                        |                        | 327,828             | 260,552             |
| <b>Total Supporting</b>   | <b>947,371</b>      | <b>-</b>               | <b>-</b>               | <b>947,371</b>      | <b>713,507</b>      |
| <b>Total Expenses</b>   | <b>3,578,665</b>    | <b>-</b>               | <b>-</b>               | <b>3,578,665</b>    | <b>3,438,898</b>    |
| <b>Change in Net Assets</b>                                       | <b>609,265</b>      | <b>(991,589)</b>       | <b>362,500</b>         | <b>(19,824)</b>     | <b>(229,580)</b>    |
| <b>Net Assets, Beginning of Year</b>                              | <b>800,280</b>      | <b>1,850,018</b>       | <b>-</b>               | <b>2,650,298</b>    | <b>2,879,878</b>    |
| <b>Net Assets, End of Year</b>                                    | <b>\$ 1,409,545</b> | <b>\$ 858,429</b>      | <b>\$ 362,500</b>      | <b>\$ 2,630,474</b> | <b>\$ 2,650,298</b> |

See Accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2014)

|                                       | Chapter<br>Networks | Education<br>and Advocacy | Programs<br>Total   | Fundraising<br>and<br>Development | General and<br>Administrative | 2015<br>Total       | 2014<br>Total       |
|---------------------------------------|---------------------|---------------------------|---------------------|-----------------------------------|-------------------------------|---------------------|---------------------|
| Salaries                              | \$ 710,601          | \$ 355,593                | \$ 1,066,194        | \$ 233,061                        | \$ 113,753                    | \$ 1,413,008        | \$ 1,363,652        |
| Employee Benefits and Payroll Taxes   | 118,514             | 59,306                    | 177,820             | 38,870                            | 18,972                        | 235,662             | 262,415             |
| Professional Fees                     | 506,042             | 16,765                    | 522,807             | 71,357                            | 120,091                       | 714,255             | 414,747             |
| Travel                                | 106,324             | 69,506                    | 175,830             | 41,377                            | 23,693                        | 240,900             | 272,287             |
| Printing                              | 66,405              | 25,416                    | 91,821              | 61,967                            | 4,274                         | 158,062             | 216,797             |
| Occupancy                             | 106,958             | 56,021                    | 162,979             | 33,440                            | 15,821                        | 212,240             | 174,608             |
| Conferences, Conventions and Meetings | 21,503              | 7,836                     | 29,339              | 46,378                            | 5,422                         | 81,139              | 92,245              |
| Postage and Delivery                  | 50,412              | 29,543                    | 79,955              | 40,800                            | 7,133                         | 127,888             | 120,825             |
| Depreciation and Amortization         | 18,585              | 9,300                     | 27,885              | 6,096                             | 2,976                         | 36,957              | 39,268              |
| Telecommunications                    | 17,218              | 12,281                    | 29,499              | 4,427                             | 2,260                         | 36,186              | 36,688              |
| Scholarships and Awards               | 128,975             | -                         | 128,975             | -                                 | -                             | 128,975             | 256,693             |
| Advertising                           | -                   | 434                       | 434                 | 185                               | -                             | 619                 | 1,537               |
| Bank Charges and Credit Card Fees     | 11,201              | 5,605                     | 16,806              | 3,689                             | 1,793                         | 22,288              | 22,930              |
| IT Services                           | 8,534               | 4,460                     | 12,994              | 2,698                             | 1,320                         | 17,012              | 26,738              |
| Supplies                              | 10,454              | 8,680                     | 19,134              | 8,015                             | 2,246                         | 29,395              | 42,603              |
| Equipment and Maintenance             | 3,172               | 1,990                     | 5,162               | 1,034                             | 505                           | 6,701               | 5,451               |
| Staff development and appreciation    | 5,269               | 2,317                     | 7,586               | 2,214                             | 1,035                         | 10,835              | 6,012               |
| State Charitable Registrations        | -                   | -                         | -                   | 10,989                            | -                             | 10,989              | 9,330               |
| Miscellaneous                         | 182                 | 91                        | 273                 | 245                               | 5,033                         | 5,551               | 214                 |
| Dues and Subscriptions                | 2,138               | 251                       | 2,389               | 18                                | 55                            | 2,462               | 1,441               |
| List Rental                           | 13,460              | -                         | 13,460              | 10,622                            | -                             | 24,082              | 39,896              |
| Insurance                             | 5,772               | 2,888                     | 8,660               | 1,893                             | 924                           | 11,477              | 8,837               |
| Taxes and Licenses                    | 3                   | -                         | 3                   | -                                 | 440                           | 443                 | 274                 |
| Cost of Goods Sold                    | 2,013               | 48,506                    | 50,519              | -                                 | -                             | 50,519              | 22,723              |
| Interest                              | 513                 | 257                       | 770                 | 168                               | 82                            | 1,020               | 687                 |
| <b>Total Expenses</b>                 | <b>\$ 1,914,248</b> | <b>\$ 717,046</b>         | <b>\$ 2,631,294</b> | <b>\$ 619,543</b>                 | <b>\$ 327,828</b>             | <b>\$ 3,578,665</b> | <b>\$ 3,438,898</b> |

See Accompanying Notes to Financial Statements.



PFLAG, INC.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2014)**

|   | 2015              | 2014                |
|---|-------------------|---------------------|
| <b>Cash Flows From Operating Activities</b>   |                   |                     |
| Increase in Net Assets  | \$ (19,824)       | \$ (229,580)        |
| Adjustments to Reconcile Increase in Net Assets<br>to Net Cash Provided by Operating Activities |                   |                     |
| Depreciation and Amortization   | 36,957            | 39,268              |
| Losses on Investments   | 16,913            | -                   |
| <u>(Increase) Decrease in Assets</u>  |                   |                     |
| Contributions Receivable  | 965,433           | 922,723             |
| Other Receivables   | (66,549)          | 59,557              |
| Prepaid Expenses  | (1,738)           | 18,188              |
| Inventory   | 2,245             | 12,478              |
| Security Deposit  | -                 | 700                 |
| <u>Increase (Decrease) in Liabilities</u>   |                   |                     |
| Accounts Payable and Accrued Expenses   | (90,765)          | 228,041             |
| Deferred Rent   | (28,818)          | (21,487)            |
| Deferred Revenue  | 51,580            | (57,875)            |
| Net Cash Provided by Operating Activities   | 865,434           | 972,013             |
| <b>Cash Flows from Investing Activities</b>   |                   |                     |
| Purchases of Furniture, Fixtures and Office Equipment   | (40,677)          | -                   |
| Purchases of Investments  | (1,524,573)       | -                   |
| Net Cash Used in Investing Activities   | (1,565,250)       | -                   |
| <b>Cash Flows from Financing Activities</b>   |                   |                     |
| Principal Payments on Capital Lease Obligations   | (3,160)           | (6,449)             |
| Net Cash Used in Financing Activities   | (3,160)           | (6,449)             |
| Net (Decrease) Increase in Cash and Cash Equivalents  | (702,976)         | 965,564             |
| Cash and Cash Equivalents, Beginning of Year  | 1,263,753         | 298,189             |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b>\$ 560,777</b> | <b>\$ 1,263,753</b> |
| <b>Supplemental Disclosures</b>   |                   |                     |
| Interest Paid   | \$ 1,020          | \$ 687              |
| <b>Non-Cash Investing and Financing Activities</b>  |                   |                     |

During the year ended September 2014 PFLAG entered into a new capital lease agreement for office equipment valued at approximately \$12,000.

*See Accompanying Notes to Financial Statements.*

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

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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, 2015

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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 its 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 DC 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, 2015

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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 returns 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.

*Contributions Receivable*

Contributions receivable primarily consist 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 primarily consist 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, 2015

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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, 2015

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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, 2014. 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, 2014, from which the summarized information was derived.

*Reclassifications*

Certain 2014 amounts have been reclassified for comparative purposes.

2. INVESTMENTS

Net investment loss for the year ended September 30, 2015 is comprised of the following:

| <b>Description</b>             | <b>Amount</b>      |
|--------------------------------|--------------------|
| Interest and Dividends         | \$ 3,756           |
| Realized and Unrealized Losses | (16,913)           |
|                                | (13,157)           |
| Less: Investment Fees          | (1,364)            |
| <b>Net Investment Loss</b>     | <b>\$ (14,521)</b> |

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);

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3. FAIR VALUE MEASUREMENTS (CONTINUED)

**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).

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, 2015:

| Description                 | (Level 1)         | (Level 2)           | Total               |
|-----------------------------|-------------------|---------------------|---------------------|
| Money market funds          | \$ 205,623        | \$ 205,623          | \$ 205,623          |
| Certificates of Deposit     |                   | \$ 1,001,936        | 1,001,936           |
| Exchange traded funds       | 7,875             |                     | 7,875               |
| Mutual Funds - Equities     | 163,715           |                     | 163,715             |
| Mutual Funds - Fixed Income | 128,510           |                     | 128,510             |
| <b>Total investments</b>    | <b>\$ 505,723</b> | <b>\$ 1,001,936</b> | <b>\$ 1,507,659</b> |

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

4. 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 depreciated over the lesser of the estimated useful life or the lease term. Depreciation of the asset under the lease is included in depreciation and amortization expense. The accumulated amortization as of September 30, 2015 was approximately \$6,000.

Minimum future lease payments under the lease as of September 30, 2015 are as follows:

| <i>Year Ending September 30,</i>                     | Amount          |
|--|-----------------|
| 2016   | \$ 3,110        |
| 2017   | 3,360           |
| 2018   | 560             |
| <b>Total Minimum Lease Payments</b>                  | <b>7,030</b>    |
| <b>Less Amount Representing Interest</b>             | <b>(418)</b>    |
| <b>Present Value of Total Minimum Lease Payments</b> | <b>\$ 6,612</b> |

PFLAG, INC.

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5. 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, 2015, future minimum lease payments under the operating lease are as follows:

| <i>Year Ending September 30,</i> | <b>Amount</b>       |
|----------------------------------|---------------------|
| 2016                             | \$ 223,009          |
| 2017                             | 228,596             |
| 2018                             | 234,316             |
| 2019                             | 240,170             |
| 2020                             | 225,456             |
| <b>Total</b>                     | <b>\$ 1,151,547</b> |

Occupancy expense totaled approximately \$212,000 for the year ended September 30, 2015.

6. DONATED SERVICES

For the year ended September 30, 2015 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, 2015, are as follows:

| <b>Description</b>            | <b>Chapter<br/>Networks</b> | <b>Education<br/>and<br/>Advocacy</b> | <b>Fundraising<br/>and<br/>Development</b> | <b>General and<br/>Administrative</b> | <b>Total</b>      |
|-------------------------------|-----------------------------|---------------------------------------|--|---------------------------------------|-------------------|
| Professional Fees             | \$ 412,110                  | \$ -                                  | \$ -                                       | \$ 52,903                             | \$ 465,013        |
| <b>Total Donated Services</b> | <b>\$ 412,110</b>           | <b>\$ -</b>                           | <b>\$ -</b>                                | <b>\$ 52,903</b>                      | <b>\$ 465,013</b> |



PFLAG, INC.

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7. COMMITMENTS

PFLAG has entered into agreements with hotels to provide event, banqueting facilities and accommodations for its events to be held through April 2016. The agreements contains clauses whereby PFLAG is liable for liquidated damages in the event of cancellation or lower than anticipated attendance. At September 30, 2015, management of PFLAG has estimated the amount of liquidated damages in the event of cancellation to be approximately \$118,000. Management does not believe any cancellation under these agreements will occur.

In addition, 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, 2015, PFLAG incurred joint costs of approximately \$380,000 for direct mail that included both a program component and a fundraising appeal. Of these costs, approximately \$198,000 was allocated to program services, \$156,000 was allocated to fundraising and development expense and \$26,000 was allocated to general and administrative expense in the accompanying statement of functional expenses.

9. RESTRICTIONS ON NET ASSETS

At September 30, 2015, PFLAG's temporarily restricted net assets consisted of the following:

| <b>Description</b>                  | <b>Amount</b>     |
|-------------------------------------|-------------------|
| Scholarship/Safe Schools Program    | \$ 22,996         |
| Scholarships                        | 5,670             |
| Time Restriction                    | 829,763           |
| <b>Total Temporarily Restricted</b> | <b>\$ 858,429</b> |

Net assets released from restrictions for the year ended September 30, 2015 were as follows:

| <b>Description</b>               | <b>Amount</b>       |
|----------------------------------|---------------------|
| Straight for Equality Project    | \$ 37,500           |
| Scholarship/Safe Schools Program | 12,826              |
| Scholarships                     | 59,500              |
| PFLAG New York City Chapter      | 1,915               |
| Time Restriction                 | 1,468,183           |
| <b>Total Releases</b>            | <b>\$ 1,579,924</b> |

PFLAG, INC.

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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, 2015:

| <b>Description</b>                             | <b>Amount</b>     |
|--|-------------------|
| Arnold T. Schwab Scholarship                   | \$ 362,500        |
| <b>Total Permanently Restricted Net Assets</b> | <b>\$ 362,500</b> |

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
- (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.

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**10. PERMANENTLY RESTRICTED NET ASSETS/ ENDOWMENT (CONTINUED)**

PFLAG had the following changes in the endowment during the year ended September 30, 2015:

| <u>Description</u>                       | <u>Unrestricted</u> | <u>Permanently<br/>Restricted</u> |
|--|---------------------|-----------------------------------|
| Endowment Net Assets, Beginning of Year  | \$ -                | \$ -                              |
| Contributions                            | -                   | 362,500                           |
| Investment Income                        | 1,035               | -                                 |
| Net Depreciation of Investments          | (16,506)            | -                                 |
| <b>Endowment Net Assets, End of Year</b> | <b>\$ (15,471)</b>  | <b>\$ 362,500</b>                 |

As of September 30, 2015, the PFLAG had the following endowment funds:

| <u>Description</u>               | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> |
|----------------------------------|-----------------------------------|-----------------------------------|
| Donor Restricted Endowment Funds | \$ -                              | \$ 362,500                        |
| <b>Total Endowment Funds</b>     | <b>\$ -</b>                       | <b>\$ 362,500</b>                 |

PFLAG's permanent endowment has experienced a loss from a decline in the market value of investments causing the fair market value of these funds to be less than the original gifts. As of September 30, 2015, the decline in market value was approximately \$15,500.

**11. PENSION PLAN**

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 \$43,000 for the year ended September 30, 2015 and is included in employee benefits in the accompanying schedule of functional expenses.

**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 is March 8, 2015 to March 7, 2018. In the event of termination without cause, PFLAG will pay the employee severance equal to 1.5 months of salary for each year or partial year (measured by anniversaries of employment), for which the employee has been employed by PFLAG, with the payment not to exceed the lesser of six months' salary or approximately \$140,700.

**PFLAG, INC.**

**NOTES TO FINANCIAL STATEMENTS  
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**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, DC, 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, 2015, two donors comprised 79% of the contributions receivable, and one donor comprised 12% of contributions and gifts..

As of September 30, 2015, approximately 38% of PFLAG's employees are members of Office and Professional Employees International Union, Local 2, AFL-CIO (the Union). PFLAG's contract with the Union is subject to renegotiation in 2017.

**15. SUBSEQUENT EVENTS**

Subsequent events were evaluated through April 12, 2016 which is the date the financial statements were available to be issued.