



**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

Financial Statements

For the Year Ended September 30, 2007

(With Summarized Financial Information for the Year Ended September 30, 2006)



**and
Report Thereon**





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Audit Committee of
Parents, Families and Friends of Lesbians and Gays, Inc.

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statement of financial position of Parents, Families and Friends of Lesbians and Gays, Inc. (PFLAG) as of September 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of PFLAG's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from PFLAG's 2006 financial statements and, in our report dated December 7, 2006, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Raffa, P.C.

RAFFA, P.C.

Washington, D.C.
March 25, 2008

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

STATEMENT OF FINANCIAL POSITION

September 30, 2007 and 2006

| | 2007 | 2006 |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 549,041 | \$ 664,001 |
| Current portion of contributions and other receivables | 404,860 | 191,013 |
| Prepaid expenses | 112,153 | 124,235 |
| Inventory | 13,790 | 7,808 |
| Total Current Assets | 1,079,844 | 987,057 |
| Contributions and other receivables, net of current portion | 1,128,595 | 346,253 |
| Furniture and equipment, net | 95,507 | 140,975 |
| Security deposit | 12,937 | 12,937 |
| TOTAL ASSETS | \$ 2,316,883 | \$ 1,487,222 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 159,747 | \$ 104,675 |
| Current portion of capital lease obligation | 4,803 | 3,464 |
| Current portion of note payable | 77,583 | 77,064 |
| Current portion of deferred rent | 12,374 | 8,814 |
| Current portion of security deposit | 4,039 | - |
| Deferred revenue | 97,778 | - |
| Total Current Liabilities | 356,324 | 194,017 |
| Long-Term Liabilities | | |
| Deferred rent, net of current portion | 20,236 | 32,610 |
| Capital lease obligation, net of current portion | 10,187 | 15,346 |
| Note payable, net of current portion | 83,514 | 155,166 |
| Security deposit | 4,040 | 3,834 |
| Total Long-Term Liabilities | 117,977 | 206,956 |
| Total Liabilities | 474,301 | 400,973 |
| Commitments | | |
| Net Assets | | |
| Unrestricted | (86,872) | 22,204 |
| Temporarily restricted | 1,929,454 | 1,064,045 |
| Total Net Assets | 1,842,582 | 1,086,249 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,316,883 | \$ 1,487,222 |

The accompanying notes are an integral part of these financial statements.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2007

(With Summarized Financial Information for the Year Ended September 30, 2006)

| | Unrestricted | Temporarily Restricted | 2007 Total | 2006 Total |
|--|--------------------|---------------------------|---------------------|---------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions and gifts | \$ 1,680,156 | \$ 1,324,580 | \$ 3,004,736 | \$ 1,749,782 |
| Conference income | - | 165,500 | 165,500 | 30,625 |
| Chapter dues | 97,645 | - | 97,645 | 105,299 |
| Rental and interest | 63,152 | - | 63,152 | 78,166 |
| Product and publications | 26,748 | - | 26,748 | 22,273 |
| Special events and other | 21,836 | - | 21,836 | 17,872 |
| Other income | 1,868 | - | 1,868 | - |
| Net assets released from restrictions: | | | | |
| Satisfaction of program restrictions | 329,503 | (329,503) | - | - |
| Satisfaction of time restrictions | 295,168 | (295,168) | - | - |
| TOTAL REVENUE AND SUPPORT | 2,516,076 | 865,409 | 3,381,485 | 2,004,017 |
| EXPENSES | | | | |
| Program Services | | | | |
| Policy and programs | 1,574,867 | - | 1,574,867 | 1,220,061 |
| Outreach and education | 443,282 | - | 443,282 | 385,403 |
| Total Program Services | 2,018,149 | - | 2,018,149 | 1,605,464 |
| Supporting Services | | | | |
| Fundraising and development | 445,270 | - | 445,270 | 403,060 |
| General and administrative | 161,733 | - | 161,733 | 126,356 |
| TOTAL EXPENSES | 2,625,152 | - | 2,625,152 | 2,134,880 |
| Change in Net Assets | (109,076) | 865,409 | 756,333 | (130,863) |
| NET ASSETS, BEGINNING OF YEAR | 22,204 | 1,064,045 | 1,086,249 | 1,217,112 |
| NET ASSETS, END OF YEAR | \$ (86,872) | \$ 1,929,454 | \$ 1,842,582 | \$ 1,086,249 |

The accompanying notes are an integral part of these financial statements.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2007

(With Summarized Financial Information for the Year Ended September 30, 2006)

| | Program Services | | | Supporting Services | | 2007 Total | 2006 Total |
|-----------------------------------|------------------------|---------------------------|---------------------|--------------------------------|-------------------------------|---------------------|---------------------|
| | Policy and Programs | Outreach and Education | Total | Fundraising and Development | General and Administrative | | |
| Salaries | \$ 504,188 | \$ 204,719 | \$ 708,907 | \$ 87,035 | \$ 36,195 | \$ 832,137 | \$ 752,894 |
| Professional fees | 420,820 | 48,634 | 469,454 | 78,533 | 26,654 | 574,641 | 270,867 |
| Travel | 159,759 | 20,842 | 180,601 | 20,012 | 24,403 | 225,016 | 164,679 |
| Occupancy | 108,769 | 32,287 | 141,056 | 28,484 | 33,240 | 202,780 | 191,469 |
| Printing | 81,317 | 12,175 | 93,492 | 105,308 | 1,016 | 199,816 | 182,299 |
| Employee benefits | 109,338 | 36,774 | 146,112 | 21,244 | 12,445 | 179,801 | 145,205 |
| Postage and delivery | 41,739 | 5,497 | 47,236 | 48,104 | 1,270 | 96,610 | 80,254 |
| Depreciation and amortization | 33,198 | 13,598 | 46,796 | 6,657 | 9,710 | 63,163 | 44,993 |
| Scholarships and awards | 49,304 | 674 | 49,978 | 120 | - | 50,098 | 53,319 |
| Advertising | 7,192 | 32,059 | 39,251 | 1,375 | - | 40,626 | 65,400 |
| Bank charges and credit card fees | 11,765 | 4,819 | 16,584 | 5,743 | 5,991 | 28,318 | 23,035 |
| Telemarketing | - | - | - | 19,405 | - | 19,405 | 21,453 |
| Telecommunications | 11,618 | 1,922 | 13,540 | 1,505 | 2,413 | 17,458 | 13,985 |
| Equipment | 8,580 | 2,770 | 11,350 | 1,446 | 1,279 | 14,075 | 19,726 |
| Supplies | 5,435 | 4,079 | 9,514 | 944 | 3,515 | 13,973 | 9,430 |
| Newsletter | - | 12,353 | 12,353 | - | - | 12,353 | 31,597 |
| Miscellaneous | 5,211 | 2,134 | 7,345 | 1,045 | 1,524 | 9,914 | 5,682 |
| State charitable registrations | - | - | - | 9,580 | - | 9,580 | 9,640 |
| Staff development and recruitment | 4,098 | 1,631 | 5,729 | 2,560 | 1,216 | 9,505 | 24,254 |
| Dues and subscriptions | 4,274 | 297 | 4,571 | 2,855 | 212 | 7,638 | 4,381 |
| Online charges | 2,871 | 1,758 | 4,629 | 579 | 650 | 5,858 | 3,543 |
| Facility rental | 4,697 | - | 4,697 | - | - | 4,697 | 11,370 |
| Wire services | - | 4,165 | 4,165 | - | - | 4,165 | 3,525 |
| List exchange | - | - | - | 2,736 | - | 2,736 | 1,880 |
| Registration fees | 694 | 95 | 789 | - | - | 789 | - |
| Total | \$ 1,574,867 | \$ 443,282 | \$ 2,018,149 | \$ 445,270 | \$ 161,733 | \$ 2,625,152 | \$ 2,134,880 |

The accompanying notes are an integral part of these financial statements.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

STATEMENT OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

(With Summarized Financial Information for the Year Ended September 30, 2006)

Increase (Decrease) in Cash and Cash Equivalents

| | 2007 | 2006 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 756,333 | \$ (130,863) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 63,163 | 44,993 |
| Realized loss on disposal of fixed assets | 745 | - |
| Changes in assets and liabilities: | | |
| Contributions and other receivables | (996,189) | (25,789) |
| Prepaid expenses | 12,082 | (106,356) |
| Inventory | (5,982) | (3,402) |
| Security deposit | - | (521) |
| Accounts payable and accrued expenses | 55,072 | 45,052 |
| Deferred revenue | 97,778 | (5,100) |
| Deferred rent | (8,814) | (7,381) |
| Security deposit | 4,245 | 256 |
| | <u>(21,567)</u> | <u>(189,111)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of furniture and equipment | (18,440) | (112,467) |
| | <u>(18,440)</u> | <u>(112,467)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under note payable agreement | - | 232,700 |
| Principal payments on note payable | (71,133) | (400) |
| Principal payments on capital lease obligations | (3,820) | (3,260) |
| | <u>(74,953)</u> | <u>229,040</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (114,960) | (72,538) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>664,001</u> | <u>736,539</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 549,041</u> | <u>\$ 664,001</u> |

The accompanying notes are an integral part of these financial statements.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007**

1. Organization and Summary of Significant Accounting Policies

Organization

Parents, Families and Friends of Lesbians and Gays, Inc. (PFLAG) was incorporated in the state of California in 1981 to promote the health and well-being of gay, lesbian, bisexual and transgender persons, their families, and friends through: Support, to cope with an adverse society; Education, to enlighten an ill-informed public; and Advocacy, to end discrimination and to secure equal civil rights. PFLAG provides opportunity for dialogue about sexual orientation and gender identity, and acts to create a society that is healthy and respectful of human diversity. PFLAG currently serves approximately 500 affiliates and over 80,000 households. These activities are funded primarily through grants and contributions.

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 and Other Receivables

Contributions and other receivables primarily consist of bequests and pledges from corporations, foundations and individuals.

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.

Fixed Assets and Related Depreciation and Amortization

Fixed assets are carried at cost and are depreciated or amortized on a straight-line basis over the following estimated useful lives:

| | |
|--|--------------|
| Furniture, fixtures and office equipment | 3 to 5 years |
| Fundraising and membership software | 3 years |
| Website | 3 years |

Leasehold improvements are amortized over the life of the lease. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the accounts and the resulting gain or loss is included in revenue or expenses.

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007**

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The net assets of PFLAG are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of PFLAG's operations.
- Temporarily restricted net assets are specifically restricted by donors for various programs.

Revenue Recognition

PFLAG reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of 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 on the accompanying statement of activities as net assets released from restrictions.

Unrestricted contributions and grants are reported as revenue in the year in which the payments are received and/or unconditional promises are made. Revenue recognized on grants and contributions that have been committed to PFLAG, but have not been received, is reflected as contributions receivable in the accompanying statement of financial position.

In-kind Contributions

PFLAG receives donated goods and legal, travel, advertising and printing services. These services are recorded as in-kind contributions at the estimated fair value as of the date of the donation and are used in all of PFLAG's programs.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the programs and supporting services benefited based on head count and direct labor costs.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007**

2. Contributions and Other Receivables

In July of 2007, PFLAG was notified that the organization was one of multiple beneficiaries of a large estate. The estimated value of PFLAG's portion of the estate is \$1,155,414 which is to be paid out in quarterly payments over an eight year period. The net realizable value of the bequest at September 30, 2007 is due as follows:

| | |
|--|-------------------|
| Due in less than one year | \$ 72,213 |
| Due in one to eight years | <u>1,083,201</u> |
| | 1,155,414 |
| Less: Discount to present value (4.963%) | <u>(197,357)</u> |
| Total | <u>\$ 958,057</u> |

The discount rate applied to the bequest is based on the July 31, 2007 U.S. Treasury rate.

Subsequent to year-end PFLAG was notified that the estimated value of the portion of the estate increased to \$1,598,056.

The remaining contributions receivable at September 30, 2007 represent unconditional promises to give, which includes a living trust, by donors and are recorded at net realizable value as follows:

| | |
|---|-------------------|
| Due in less than one year | \$ 332,647 |
| Due in one to five years | <u>259,690</u> |
| | 592,337 |
| Less: Discount to present value (3.45%) | <u>(16,939)</u> |
| Total | <u>\$ 575,398</u> |

The discount rate applied to the living trust is based on the June 30, 2002 U.S. Treasury rate, the date in which the living trust was awarded.

PFLAG considers all contributions and other receivables fully collectible.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007**

3. Furniture and Equipment

PFLAG held the following furniture and equipment as of September 30, 2007:

| | |
|---|------------------|
| Furniture, fixtures and office equipment | \$ 111,543 |
| Fundraising and membership software | 102,280 |
| Leasehold improvements | 8,690 |
| Website | <u>27,257</u> |
| Total furniture and equipment | 249,770 |
| Less: accumulated depreciation and amortization | <u>154,263</u> |
| Net furniture and equipment | \$ <u>95,507</u> |

Fundraising and Membership Software

During 2006, PFLAG entered in to an agreement for the development, design and integration of a new fundraising and membership software system, which totaled \$232,730. In accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, \$99,750 of these costs have been capitalized as of September 30, 2007 and are included in net fixed assets in the accompanying statement of financial position. The agreement includes a software license, implementation services, maintenance, support and hosting for a 3 year period which commenced in April 2006. In connection with the agreement, PFLAG will receive training, support and maintenance, with an option to continue the support and maintenance thereafter. The agreement totaled \$232,730 and is broken down into the following components:

| | |
|-----------------------------------|-------------------|
| Develop, design and integration | \$ 99,750 |
| Hosting and subscription services | 90,600 |
| Maintenance | 21,960 |
| Training | <u>20,420</u> |
| Total | \$ <u>232,730</u> |

4. Capital Lease

PFLAG leases certain equipment under a lease that is classified as capital lease for financial reporting purposes. The lease expires in May 2010. The leased equipment is included in furniture and equipment at a cost of \$23,015 with accumulated amortization of \$11,124 at September 30, 2007. Amortization expense for the equipment acquired through the capital lease was \$4,603 for the year ended September 30, 2007 and is included in depreciation and amortization expense in the accompanying statement of functional expenses.

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007**

4. Capital Lease (continued)

As of September 30, 2007, future minimum payments under the capital leases are as follows:

| <u>Year Ending September 30</u> | |
|---|------------------|
| 2008 | \$ 7,469 |
| 2009 | 8,148 |
| 2010 | <u>4,753</u> |
| Total future lease commitments | 20,370 |
| Lease amount representing interest | <u>(5,380)</u> |
| Present value of minimum lease payments | <u>\$ 14,990</u> |

5. Temporarily Restricted Net Assets

As of September 30, 2007, temporarily restricted net assets are available for the following programs and purposes:

| | |
|----------------------------------|---------------------|
| Purpose restricted: | |
| Scholarship/Safe schools program | \$ 374,845 |
| 2007 PFLAG National Convention | 105,457 |
| Straight for Equality project | 77,434 |
| National safe schools roundtable | 53,743 |
| Safe school initiative | <u>9,070</u> |
| Total program restricted | 620,549 |
| Time restricted | <u>1,308,905</u> |
| Total | <u>\$ 1,929,454</u> |

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

6. Release from Restrictions on Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes and through the passage of time. For the year ended September 30, 2007, net assets released from restrictions were as follows:

| | |
|---|-------------------|
| Satisfaction of program restrictions: | |
| Scholarship/Safe schools program | \$ 150,837 |
| Straight for Equality Project | 67,616 |
| 2007 PFLAG National Convention | 60,738 |
| Midwest Regional Conference | 30,625 |
| Safe schools initiative | 10,000 |
| National Safe Schools Roundtable | <u>9,687</u> |
| Total release from purpose restrictions | 329,503 |
| Lapse of time restrictions | <u>295,168</u> |
| Total net assets released from restrictions | <u>\$ 624,671</u> |

7. Note Payable

On March 31, 2006, PFLAG entered into a note payable agreement with CitiCapital for \$232,730 to finance the purchase of the fundraising and membership software. The loan carries an interest rate of zero and is to be repaid in monthly installments of principal of \$6,444. The final payment is due September 30, 2009.

The scheduled future principal payments at September 30, 2007 are as follows:

| | | |
|----------------------|----|----------------|
| For the Year Ending | | |
| <u>September 30,</u> | | |
| 2008 | \$ | 77,583 |
| 2009 | | <u>83,514</u> |
| Total | \$ | <u>161,097</u> |

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

8. Commitments

Concentration of Risk

PFLAG's cash is comprised of amounts in accounts at various financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, PFLAG has not experienced, nor does it anticipate, any losses on its funds. As of September 30, 2007, the amounts in excess of the Federal Deposit Insurance Corporation insured limit of \$100,000 totaled \$442,196.

Office Lease

PFLAG leases its office space under a noncancelable, ten-year operating lease which expires during 2010. This lease agreement contains a provision for an increase in rent of 2% per annum beginning on the first anniversary date and 3.7% increase on the sixth year anniversary. Under accounting principles generally accepted in the United States of America, all lease incentives and fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent on the accompanying statement of financial position.

The future minimum rental payments required under the operating lease as of September 30, 2007 are as follows:

| <u>For the Year Ending September 30,</u> | |
|--|-------------------|
| 2008 | \$ 181,588 |
| 2009 | 185,219 |
| 2010 | <u>46,533</u> |
| Total | <u>\$ 413,340</u> |

Occupancy expense totaled \$200,761 for the year ended September 30, 2007.

Hotel Commitments

PFLAG has entered into an agreement with a hotel to provide conference facilities and room accommodations for its 2007 National Convention. The agreement contains various clauses whereby PFLAG is liable for liquidated damages in the event of cancellation or lower than anticipated attendance. Management of PFLAG does not believe that any losses will be incurred under this contract. The maximum possible amount of liquidation damages as of September 30, 2007 was \$152,994.

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

9. Allocation of Joint Costs

In 2007, PFLAG incurred joint costs of \$270,951 for direct mail that included both a program component and a fundraising appeal. Of these costs, \$100,123 was allocated to program services and \$170,828 was allocated to fundraising in the accompanying statement of functional expenses.

10. Pension Plan

PFLAG maintains a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code which is available to all full-time employees. The plan is funded by employer matching contributions up to a maximum of 2% of the employee's annual salary or \$1,000 whichever is greater. Employer contributions are made on behalf of employees with at least one year service. Both employer and employee contributions are fully vested. Pension expense was \$7,818 for the year ended September 30, 2007 and is included in employee benefits in the accompanying schedule of functional expenses.

11. Income Taxes

PFLAG is exempt from the payment of income taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is required at September 30, 2007, as PFLAG had no net unrelated business income.

12. Comparative Prior Year Summarized Data

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 PFLAG's financial statements for the year ended September 30, 2006, from which the summarized information was derived.

13. Reclassifications

Certain reclassifications have been made to the 2006 financial statement balances to conform with the 2007 financial statement presentation.

Continued

**PARENTS, FAMILIES AND FRIENDS OF
LESBIANS AND GAYS, INC.**

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

14. Operating Deficit and Management's Plan

PFLAG has an unrestricted net asset deficit at September 30, 2007 of \$86,872. However, management projects that this deficit will be reduced as PFLAG is permitted to release certain time restricted net assets from restrictions. PFLAG also expects to receive a large number of payments on its pledges during future years which should have a positive impact on cash flow.