



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

Financial Statements

For the Year Ended September 30, 2005

(With Summarized Financial Information for the Year Ended September 30, 2004)



**and
Report Thereon**





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2005, 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 2004 financial statements and, in our report dated January 13, 2005, 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 reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parents, Families and Friends of Lesbians and Gays as of September 30, 2005, 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, DC
December 9, 2005

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

STATEMENT OF FINANCIAL POSITION

September 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 736,539	\$ 512,383
Current portion of contributions receivable	126,693	684,680
Investments	-	1,292
Prepaid expenses	17,879	21,081
Inventory	4,406	11,419
Total Current Assets	885,517	1,230,855
Contributions receivable, net of current portion	384,784	475,919
Furniture and equipment, net	73,501	21,553
Security deposit	12,416	12,937
TOTAL ASSETS	\$1,356,218	\$1,741,264
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 59,623	\$ 127,189
Current portion of capital lease obligation	8,148	-
Deferred revenue	5,100	118,768
Total Current Liabilities	72,871	245,957
Long-Term Liabilities		
Deferred rent	48,805	47,959
Capital lease obligation, net of current portion	13,852	-
Security deposit payable	3,578	3,578
Total Long-Term Liabilities	66,235	51,537
Total Liabilities	139,106	297,494
Commitments		
Net Assets		
Unrestricted	188,244	302,176
Temporarily restricted	1,028,868	1,141,594
Total Net Assets	1,217,112	1,443,770
TOTAL LIABILITIES AND NET ASSETS	\$1,356,218	\$1,741,264

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, 2005

(With Summarized Financial Information for the Year Ended September 30, 2004)

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
REVENUE AND SUPPORT				
Contributions and gifts	\$1,291,305	\$ 31,622	\$1,322,927	\$2,312,342
Conference income	233,328	-	233,328	-
Chapter dues	87,882	-	87,882	70,392
Rental and interest	60,901	-	60,901	28,427
Product and publications	19,928	-	19,928	22,727
Special events and other	7,506	-	7,506	72,753
Net assets released from restrictions:				
Satisfaction of program restrictions	59,785	(59,785)	-	-
Satisfaction of time restrictions	84,563	(84,563)	-	-
TOTAL REVENUE AND SUPPORT	1,845,198	(112,726)	1,732,472	2,506,641
EXPENSES				
Program Services				
Chapter support and scholarship program	965,752	-	965,752	946,262
Outreach	282,703	-	282,703	419,011
Conference	144,591	-	144,591	82,077
Total Program Services	1,393,046	-	1,393,046	1,447,350
Supporting Services				
Fundraising	387,213	-	387,213	525,193
General and administrative	178,871	-	178,871	192,626
TOTAL EXPENSES	1,959,130	-	1,959,130	2,165,169
Change in Net Assets	(113,932)	(112,726)	(226,658)	341,472
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	302,176	1,141,594	1,443,770	1,102,298
NET ASSETS, END OF YEAR	\$ 188,244	\$1,028,868	\$1,217,112	\$1,443,770

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

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

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2005

(With Summarized Financial Information for the Year Ended September 30, 2004)

	Program Services			Supporting Services			2005 Total	2004 Total
	Chapter support and Scholarship Program	Outreach	Conferences	Total	Fundraising	General and Administrative		
Salaries	\$ 408,183	\$ 107,478	\$ 33,083	\$ 548,744	\$ 102,157	\$ 85,737	\$ 736,638	\$ 790,894
Rent	114,355	32,759	6,965	154,079	28,180	11,332	193,591	188,000
Printing and photography	86,798	28,997	5,610	121,405	65,900	4,968	192,273	157,999
Professional fees	79,196	16,587	6,506	102,289	51,651	8,029	161,969	209,433
Travel	58,355	6,692	67,210	132,257	4,772	24,314	161,343	187,705
Employee benefits	90,234	24,627	5,586	120,447	21,403	15,033	156,883	154,285
Postage and delivery	26,485	7,785	2,244	36,514	49,602	1,022	87,138	84,427
Scholarships and awards	38,500	-	1,060	39,560	-	-	39,560	41,611
PFLAGPole	-	35,573	-	35,573	-	-	35,573	79,223
Staff development and recruitment	9,789	2,434	445	12,668	8,627	10,004	31,299	26,599
Depreciation	11,667	3,185	730	15,582	2,313	10,508	28,403	21,061
Telemarketing	4,240	1,026	456	5,722	19,078	-	24,800	37,242
Supplies	6,204	1,642	9,955	17,801	1,000	2,513	21,314	9,208
Caging	2,903	702	312	3,917	13,062	-	16,979	18,463
Equipment copier	6,499	1,353	893	8,745	3,396	586	12,727	25,130
Bank and credit card fees	6,043	1,661	276	7,980	3,014	863	11,857	15,696
Telephone	5,008	1,775	368	7,151	1,032	1,538	9,721	12,849
State registration fees	1,588	384	169	2,141	7,076	-	9,217	8,830
Facility rental	1,566	-	-	1,566	3,385	1,002	5,953	22,169
Wire services	-	4,135	300	4,435	-	-	4,435	13,850
Online charges	2,174	1,167	165	3,506	507	403	4,416	22,151
Miscellaneous	602	209	2,258	3,069	-	-	3,069	15,223
Chapter grants and support	-	-	-	-	-	-	-	6,299
List exchange	580	2,054	-	2,634	413	-	3,047	4,745
Advertising	1,694	167	-	1,861	484	417	2,762	4,546
Dues and subscriptions	1,714	311	-	2,025	161	352	2,538	3,766
Registration fees	1,375	-	-	1,375	-	250	1,625	3,765
Total	\$ 965,752	\$ 282,703	\$ 144,591	\$ 1,393,046	\$ 387,213	\$ 178,871	\$ 1,959,130	\$ 2,165,169

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 Year Ended September 30, 2005 and 2004

(With Summarized Financial Information for the Year Ended September 30, 2004)

Increase (Decrease) in Cash and Cash Equivalents

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (226,658)	\$ 341,472
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	30,305	21,061
Unrealized loss on investments	-	71
Changes in assets and liabilities:		
Contributions receivable	649,122	(504,702)
Prepaid expenses	3,202	28,612
Inventory	7,013	(301)
Security deposit	521	(170)
Accounts payable and accrued expenses	(67,566)	(73,243)
Deferred revenue	(113,668)	118,768
Deferred rent	846	4,196
Security deposit payable	-	3,578
	<u>283,117</u>	<u>(60,658)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(59,238)	(13,817)
Proceeds from sales of investments	1,292	-
	<u>(57,946)</u>	<u>(13,817)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(1,015)	-
	<u>(1,015)</u>	<u>-</u>
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	224,156	(74,475)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>512,383</u>	<u>586,858</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 736,539</u>	<u>\$ 512,383</u>
NONCASH FINANCING AND INVESTING ACTIVITIES		
Equipment acquired under capital lease	(23,015)	-
Capital lease obligation	23,015	-
	<u>\$ -</u>	<u>\$ -</u>
Total Noncash Financing and Investing Activities:	<u>\$ -</u>	<u>\$ -</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, 2005**

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 reports as cash and cash equivalents all cash and highly liquid investments with maturities of three months or less.

Contributions Receivable

Contributions receivable are primarily 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.

Furniture and Equipment and Related Depreciation

Furniture, computer equipment and website costs are stated at cost and are being depreciated using the straight-line method over estimated useful lives of three to five years, with no salvage value. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

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 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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

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

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 these estimates.

2. Contributions Receivable

Contributions receivable at September 30, 2005 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	\$ 126,693
Due in one to five years	<u>428,208</u>
	554,901
Less: Discount to present value (3.45%)	<u>(43,424)</u>
Total	<u>\$ 511,477</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.

3. Furniture and Equipment

PFLAG held the following furniture and equipment as of September 30, 2005:

Computer equipment	\$ 161,080
Furniture	30,946
Capital lease equipment	23,015
Website	<u>18,433</u>
Total furniture and equipment	233,474
Less: accumulated depreciation	<u>(159,973)</u>
Net furniture and equipment	<u>\$ 73,501</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

4. Temporarily Restricted Net Assets

As of September 30, 2005, temporarily restricted net assets are available for the following programs and purposes:

Larson Scholarship program	\$ 542,196
Time restricted contributions	473,974
Workshops and editorial board meetings	<u>12,698</u>
Total	<u>\$1,028,868</u>

5. 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, 2005, net assets released from restrictions were as follows:

Satisfaction of program restrictions:	
Larson Scholarship Program	\$ 47,949
Workshops and editorial board meetings	<u>11,836</u>
Total release from purpose restrictions	59,785
Lapse of time restrictions	<u>84,563</u>
Total net assets released from restrictions	<u>\$ 144,348</u>

6. Commitments

Line of Credit

PFLAG has entered into an unsecured line of credit agreement with a bank for \$200,000 which expires on demand. Amounts drawn on this line accrue interest at the prime rate, which at September 30, 2005 was 6.75%. There were no amounts outstanding under the line of credit as of September 30, 2005.

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

6. Commitments (continued)

Concentration of Cash

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, 2005, the amounts in excess of the Federal Deposit Insurance Corporation insured limit of \$100,000 totaled \$103,353.

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, 2005 are as follows:

<u>For the Year Ending September 30,</u>	
2006	\$ 174,536
2007	178,027
2008	181,588
2009	185,219
2010	<u>46,533</u>
Total	<u>\$ 765,903</u>

Rent expense totaled \$190,941 for the year ended September 30, 2005.

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

6. Commitments (continued)

Capital Lease

PFLAG leases certain equipment under a lease that is classified as capital lease for financial reporting purposes. The lease expires at May 2010. The leased equipment is included in property and equipment at a cost of \$23,015 with accumulated depreciation of \$1,918, as of September 30, 2005. Depreciation expense for the equipment acquired through the capital leases was \$1,918 for the year ended September 30, 2005 and is included in depreciation expense in the accompanying statement of functional expenses.

As of September 30, 2005, future minimum payments under the capital leases are as follows:

<u>Fiscal Years Ending September 30,</u>	
2006	\$ 8,148
2007	8,148
2008	8,148
2009	8,148
2010	<u>4,753</u>
Total future lease commitments	37,345
Lease amount representing interest	<u>(15,345)</u>
Present value of minimum lease payments	<u>\$ 22,000</u>

7. Allocation of Joint Costs

In 2005, PFLAG incurred joint costs of \$101,688 for direct mail and telemarketing activities that included both a program component and a fundraising appeal. Of these costs, \$68,445 was allocated to program services and \$33,243 was allocated to fundraising in the accompanying statement of functional expenses.

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005**

8. 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 contributions up to a maximum of 2% of the employee's annual salary. 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 \$4,228 for the year ended September 30, 2005 and is included in employee benefits in the accompanying schedule of functional expenses

9. 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, 2005, as PFLAG had no net unrelated business income.

10. Prior Period Adjustment

In fiscal year 2002, PFLAF was awarded a living trust of \$865,633 that is to be paid over a ten year period. Since 2002, PFLAG has been recording the living trust on a cash basis as unrestricted revenue. Under generally accepted accounting principles, this revenue should have been recorded as temporarily restricted revenue at the net present value of the trust and an amount should have been released annually to unrestricted net assets. Accordingly, PFLAG has increased its temporarily restricted net assets and contributions receivable as of September 30, 2004 by \$558,517 for the amounts estimated to be collected over the remaining seven years, discounted to reflect its net present value.

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

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

11. 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, 2004, from which the summarized information was derived.

12. Reclassification

Certain 2004 amounts have been reclassified to conform with the 2005 financial statement presentation.