



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

Financial Statements

For the Year Ended September 30, 2006

(With Summarized Financial Information for the Year Ended September 30, 2005)



**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, 2006, 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 2005 financial statements and, in our report dated December 9, 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, 2006, 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 7, 2006

**PARENTS, FAMILIES AND FRIENDS
OF LESBIANS AND GAYS, INC.**
STATEMENT OF FINANCIAL POSITION
September 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 664,001	\$ 736,539
Current portion of contributions receivable	191,013	126,693
Prepaid expenses	124,235	17,879
Inventory	7,808	4,406
Total Current Assets	987,057	885,517
Contributions receivable, net of current portion	346,253	384,784
Furniture and equipment, net	140,975	73,501
Security deposit	12,937	12,416
TOTAL ASSETS	\$ 1,487,222	\$ 1,356,218
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 104,675	\$ 59,623
Current portion of capital lease obligation	3,464	8,148
Current portion of note payable	77,064	-
Current portion of deferred rent	8,814	5,323
Deferred revenue	-	5,100
Total Current Liabilities	194,017	78,194
Long-Term Liabilities		
Deferred rent, net of current portion	32,610	43,482
Capital lease obligation, net of current portion	15,346	13,852
Note payable, net of current portion	155,166	-
Security deposit	3,834	3,578
Total Long-Term Liabilities	206,956	60,912
Total Liabilities	400,973	139,106
Commitments		
Net Assets		
Unrestricted	22,204	188,244
Temporarily restricted	1,064,045	1,028,868
Total Net Assets	1,086,249	1,217,112
TOTAL LIABILITIES AND NET ASSETS	\$ 1,487,222	\$ 1,356,218

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, 2006

(With Summarized Financial Information for the Year Ended September 30, 2005)

	Unrestricted	Temporarily Restricted	2006 Total	2005 Total
REVENUE AND SUPPORT				
Contributions and gifts	\$ 1,438,722	\$ 311,060	\$ 1,749,782	\$ 1,322,927
Chapter dues	105,299	-	105,299	87,882
Rental and interest	78,166	-	78,166	60,901
Conference income	-	30,625	30,625	233,328
Product and publications	22,273	-	22,273	19,928
Special events and other	17,872	-	17,872	7,506
Net assets released from restrictions:				
Satisfaction of program restrictions	111,560	(111,560)	-	-
Satisfaction of time restrictions	194,948	(194,948)	-	-
TOTAL REVENUE AND SUPPORT	1,968,840	35,177	2,004,017	1,732,472
EXPENSES				
Program Services				
Field support and programs	1,220,061	-	1,220,061	965,752
Outreach	385,403	-	385,403	282,703
Conference	-	-	-	144,591
Total Program Services	1,605,464	-	1,605,464	1,393,046
Supporting Services				
Fundraising	403,060	-	403,060	387,213
General and administrative	126,356	-	126,356	178,871
TOTAL EXPENSES	2,134,880	-	2,134,880	1,959,130
Change in Net Assets	(166,040)	35,177	(130,863)	(226,658)
NET ASSETS, BEGINNING OF YEAR	188,244	1,028,868	1,217,112	1,443,770
NET ASSETS, END OF YEAR	\$ 22,204	\$ 1,064,045	\$ 1,086,249	\$ 1,217,112

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, 2006

(With Summarized Financial Information for the Year Ended September 30, 2005)

	Program Services			Supporting Services		2006 Total	2005 Total
	Field support and programs	Outreach	Total	Fundraising	General and Administrative		
Salaries	\$ 459,353	\$ 147,609	\$ 606,962	\$ 97,524	\$ 48,408	\$ 752,894	\$ 736,638
Professional fees	156,107	19,978	176,085	64,498	16,409	256,992	161,969
Rent	115,446	37,972	153,418	23,933	14,118	191,469	193,591
Printing and photography	81,582	13,772	95,354	86,690	255	182,299	192,273
Travel	119,713	8,773	128,486	7,440	28,753	164,679	161,343
Employee benefits	88,609	28,474	117,083	18,784	9,338	145,205	156,883
Postage and delivery	46,534	6,046	52,580	27,007	667	80,254	87,138
Advertising	-	64,700	64,700	700	-	65,400	2,762
Scholarships and awards	53,219	-	53,219	-	100	53,319	39,560
Depreciation and amortization	24,954	8,020	32,974	8,935	3,084	44,993	28,403
PFLAGPole	-	31,597	31,597	-	-	31,597	35,573
Staff development and recruitment	7,356	444	7,800	16,417	37	24,254	31,299
Bank and credit card fees	12,699	4,082	16,781	4,547	1,707	23,035	11,857
Telemarketing	5,313	-	5,313	16,140	-	21,453	24,800
Equipment	11,647	3,236	14,883	3,580	1,263	19,726	12,727
Telephone	8,182	2,297	10,479	2,489	1,017	13,985	9,721
Caging	1,734	1,734	3,468	10,407	-	13,875	16,979
Facility rental	11,370	-	11,370	-	-	11,370	5,953
State registration fees	30	10	40	9,576	24	9,640	9,217
Supplies	7,962	477	8,439	528	463	9,430	21,314
Miscellaneous	3,145	1,002	4,147	1,116	419	5,682	3,069
Dues and subscriptions	3,684	220	3,904	385	92	4,381	2,538
Online charges	1,422	1,435	2,857	484	202	3,543	4,416
Wire services	-	3,525	3,525	-	-	3,525	4,435
List exchange	-	-	-	1,880	-	1,880	3,047
Registration fees	-	-	-	-	-	-	1,625
Total	\$ 1,220,061	\$ 385,403	\$ 1,605,464	\$ 403,060	\$ 126,356	\$ 2,134,880	\$ 1,959,130

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, 2006 and 2005

(With Summarized Financial Information for the Year Ended September 30, 2005)

Increase (Decrease) in Cash and Cash Equivalents

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (130,863)	\$ (226,658)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	44,993	28,403
Changes in assets and liabilities:		
Contributions receivable	(25,789)	649,122
Prepaid expenses	(106,356)	3,202
Inventory	(3,402)	7,013
Security deposit	(521)	521
Accounts payable and accrued expenses	45,052	(67,566)
Deferred revenue	(5,100)	(113,668)
Deferred rent	(7,381)	846
Security deposit	256	-
	(189,111)	281,215
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(112,467)	(57,336)
Proceeds from sales of investments	-	1,292
	(112,467)	(56,044)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under note payable agreement	232,700	-
Principal payments on note payable	(400)	-
Principal payments on capital lease obligations	(3,260)	(1,015)
	229,040	(1,015)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(72,538)	224,156
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	736,539	512,383
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 664,001	\$ 736,539
NONCASH FINANCING AND INVESTING ACTIVITIES		
Equipment acquired under capital lease	\$ -	\$ (23,015)
Capital lease obligation	-	23,015
	\$ -	\$ -
Total Noncash Financing and Investing Activities		

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, 2006**

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.

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

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, 2006**

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.

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006**

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, 2006 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	\$ 218,933
Due in one to five years	<u>346,254</u>
	565,187
Less: Discount to present value (3.45%)	<u>(27,921)</u>
Total	<u>\$ 537,266</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, 2006:

Furniture, fixtures and office equipment	\$ 110,211
Fundraising and membership software	99,750
Website	<u>23,157</u>
Total furniture and equipment	233,118
Less: accumulated depreciation and amortization	<u>(92,143)</u>
Net furniture and equipment	<u>\$ 140,975</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006**

3. Furniture and Equipment (continued)

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, 2006 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 property and equipment at a cost of \$23,015 with accumulated amortization of \$6,521 as of September 30, 2006. Amortization expense for the equipment acquired through the capital lease was \$4,603 for the year ended September 30, 2006 and is included in depreciation and amortization expense in the accompanying statement of functional expenses.

As of September 30, 2006, future minimum payments under the capital leases are as follows:

<u>Years Ending September 30,</u>	
2007	\$ 8,148
2008	8,148
2009	8,148
2010	<u>4,476</u>
Total future lease commitments	28,920
Lease amount representing interest	<u>(10,110)</u>
Present value of minimum lease payments	<u>\$ 18,810</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006**

5. Temporarily Restricted Net Assets

As of September 30, 2006, temporarily restricted net assets are available for the following programs and purposes:

Purpose restricted:

Carson Scholarship program	\$ 519,904
Midwest regional conference	30,625
Safe school initiative	17,675
National safe schools roundtable	<u>8,430</u>
Total program restricted	<u>576,634</u>

Time restricted:

Anderson Trust contribution	387,411
Arcus Foundation	<u>100,000</u>
Total time restricted	<u>487,411</u>
Total	<u>\$ 1,064,045</u>

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, 2006, net assets released from restrictions were as follows:

Satisfaction of program restrictions:

Carson Scholarship program	\$ 47,292
Workshops and editorial board meetings	12,698
Our House to the Statehouse program	30,000
National Safe Schools Roundtable	11,570
Safe school initiative	<u>10,000</u>
Total release from purpose restrictions	111,560
Lapse of time restrictions	<u>194,948</u>
Total net assets released from restrictions	<u>\$ 306,508</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006**

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 \$6,465. The final payment is due September 30, 2009.

The scheduled future principal payments at September 30, 2006 are as follows:

<u>For the Year Ending September 30,</u>	
2007	\$ 77,064
2008	77,583
2009	<u>77,583</u>
Total	\$ <u>232,230</u>

8. 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, 2006 was 8.25%. There were no amounts outstanding under the line of credit as of September 30, 2006.

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, 2006, the amounts in excess of the Federal Deposit Insurance Corporation insured limit of \$100,000 totaled \$24,525.

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.

Continued

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

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

8. Commitments (continued)

The future minimum rental payments required under the operating lease as of September 30, 2006 are as follows:

For the Year Ending <u>September 30,</u>	
2007	\$ 178,027
2008	181,588
2009	185,219
2010	<u>46,533</u>
Total	<u>\$ 591,367</u>

Rent expense totaled \$191,469 for the year ended September 30, 2006.

9. Allocation of Joint Costs

In 2006, PFLAG incurred joint costs of \$268,469 for direct mail and telemarketing activities that included both a program component and a fundraising appeal. Of these costs, \$161,776 was allocated to program services and \$106,693 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 \$5,758 for the year ended September 30, 2006 and is included in employee benefits in the accompanying schedule of functional expenses.

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

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

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, 2006, 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, 2005, from which the summarized information was derived.

13. Reclassifications

Certain reclassifications have been made to the 2005 financial statement balances to conform with the 2006 financial statement presentation.