

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

AUDITED FINANCIAL STATEMENTS

September 30, 2011

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
AUDITED FINANCIAL STATEMENTS
September 30, 2011

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Board of Directors
Parents, Families and Friends
Of Lesbians and Gays, Inc.
Washington, DC

Report of Independent Auditors

We have audited the accompanying statement of financial position of Parents, Families and Friends of Lesbians and Gays, Inc. (PFLAG) as of September 30, 2011, and the related statements of activities, functional expenses 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 2010 financial statements and, in our report dated January 28, 2011, we expressed an unqualified opinion on those 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, 2011, 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.

Drolet + Associates, PLLC

Washington, DC
April 2, 2012

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
STATEMENT OF FINANCIAL POSITION

September 30, 2011

(With Summarized Financial Information for September 30, 2010)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 410,693	\$ 451,338
Contributions and other receivables	313,832	757,108
Prepaid expenses	98,381	195,435
Inventory	28,369	21,217
TOTAL CURRENT ASSETS	851,275	1,425,098
CONTRIBUTIONS RECEIVABLE, net of current portion	581,505	781,179
FIXED ASSETS		
Furniture, fixtures and office equipment	210,417	207,638
Fundraising and membership software	227,791	227,791
Leasehold improvements	221,300	221,300
Website	4,100	4,100
	663,608	660,829
Accumulated depreciation and amortization	(319,617)	(225,012)
NET FIXED ASSETS	343,991	435,817
SECURITY DEPOSIT	16,621	16,221
TOTAL ASSETS	\$ 1,793,392	\$ 2,658,315

Continued

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
STATEMENT OF FINANCIAL POSITION (Continued)
September 30, 2011
(With Summarized Financial Information for September 30, 2010)

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 120,634	\$ 187,447
Deferred rent	21,157	21,157
Obligation under capital lease	8,800	8,260
Deferred revenue	62,989	105,810
Line of credit	-0-	100,000
TOTAL CURRENT LIABILITIES	213,580	422,674
DEFERRED RENT , net of current portion	287,742	277,207
OBLIGATION UNDER CAPITAL LEASE , net of current portion	13,460	22,260
TOTAL LIABILITIES	514,782	722,141
NET ASSETS		
Unrestricted	298,617	283,677
Temporarily restricted	979,993	1,652,497
TOTAL NET ASSETS	1,278,610	1,936,174
TOTAL LIABILITIES AND NET ASSETS	\$ 1,793,392	\$ 2,658,315

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, 2011
(With Summarized Financial Information for the Year Ended September 30, 2010)

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
REVENUES				
Contributions and gifts	\$ 1,650,816	\$ 196,666	\$ 1,847,482	\$ 2,361,314
Chapter dues	86,840		86,840	91,872
Sublease rental	-0-		-0-	12,857
Training service fees	134,647		134,647	-0-
Product and publications	64,522		64,522	49,819
Special events (net of direct expenses of approximately \$186,000)	293,583		293,583	122,542
Gain on sale of investments	11		11	95
Other income	3,309		3,309	4,817
Net assets released from restrictions	869,170	(869,170)	-0-	-0-
TOTAL REVENUES	3,102,898	(672,504)	2,430,394	2,643,316
EXPENSES				
PROGRAM				
Policy and programs	1,348,260		1,348,260	1,322,319
Outreach and education	983,612		983,612	909,452
TOTAL PROGRAM	2,331,872	-0-	2,331,872	2,231,771
SUPPORTING				
Fundraising and development	623,374		623,374	586,294
General and administrative	132,712		132,712	94,811
TOTAL SUPPORTING	756,086	-0-	756,086	681,105
TOTAL EXPENSES	3,087,958	-0-	3,087,958	2,912,876
CHANGE IN NET ASSETS	14,940	(672,504)	(657,564)	(269,560)
NET ASSETS, BEGINNING OF YEAR	283,677	1,652,497	1,936,174	2,205,734
NET ASSETS, END OF YEAR	\$ 298,617	\$ 979,993	\$ 1,278,610	\$ 1,936,174

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, 2011
(With Summarized Financial Information for the Year Ended September 30, 2010)

	Policy and programs	Outreach and education	Programs total	Fundraising and development	General and administrative	2011 Total	2010 Total
Salaries	\$ 576,691	\$ 387,598	\$ 964,289	\$ 115,404	\$ 65,809	\$ 1,145,502	\$ 1,133,242
Employee benefits and payroll taxes	113,680	76,587	190,267	22,919	12,896	226,082	243,283
Professional fees	147,320	88,038	235,358	231,743	4,930	472,031	407,537
Travel	89,594	141,100	230,694	28,266	11,756	270,716	226,297
Printing	52,980	27,722	80,702	47,924	242	128,868	118,203
Occupancy	97,286	62,967	160,253	18,748	10,691	189,692	182,777
Conferences, conventions and meetings	18,199	43,552	61,751	25,085	9,771	96,607	78,567
Postage and delivery	56,765	23,388	80,153	46,389	1,149	127,691	122,997
Depreciation and amortization	47,628	32,011	79,639	9,531	5,435	94,605	57,485
Telecommunications	21,519	19,660	41,179	2,767	2,245	46,191	43,056
Scholarships and awards	46,800	500	47,300			47,300	85,000
Advertising		2,800	2,800			2,800	3,000
Bank charges and credit card fees	14,626	9,830	24,456	2,927	1,669	29,052	26,654
IT services	5,253	5,692	10,945	1,038	592	12,575	17,728
Supplies	19,201	17,801	37,002	52,558	2,540	92,100	41,519
Equipment and maintenance	2,907	2,088	4,995	309	236	5,540	4,335
Staff development and appreciation	3,802	4,278	8,080	288	268	8,636	12,635
State charitable registrations			-0-	8,855		8,855	8,871
Miscellaneous	797	358	1,155	268	1,452	2,875	669
Dues and subscriptions	1,371	4,431	5,802	1,054	133	6,989	9,688
List rental	19,686		19,686	5,510		25,196	34,549
Insurance	5,620	3,777	9,397	1,125	641	11,163	10,840
Taxes and licenses	395	253	648	303	50	1,001	2,772
Cost of goods sold	4,326	27,962	32,288			32,288	37,122
Interest	1,814	1,219	3,033	363	207	3,603	4,050
TOTAL EXPENSES	\$ 1,348,260	\$ 983,612	\$ 2,331,872	\$ 623,374	\$ 132,712	\$ 3,087,958	\$ 2,912,876

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, 2011
(With Summarized Financial Information for the Year Ended September 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ (657,564)	\$ (269,560)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	94,606	57,485
Net gain on investments	(11)	(95)
Decrease in contributions and other receivables	642,950	335,833
Decrease (increase) in prepaid expenses	97,054	(98,897)
(Increase) decrease in inventory	(7,152)	21,450
(Increase) decrease in security deposit	(400)	12,636
Decrease in accounts payable and accrued expenses	(66,813)	(92,736)
Increase in deferred rent	10,535	72,834
Decrease in security deposit payable	-0-	(4,040)
(Decrease) increase in deferred revenue	(42,821)	101,343
NET CASH PROVIDED BY OPERATING ACTIVITIES	70,384	136,253
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and donations of investments	(11,793)	(16,270)
Proceeds from sales of investments	11,804	16,365
Purchases and donations of fixed assets	(2,780)	(206,066)
NET CASH USED IN INVESTING ACTIVITIES	(2,769)	(205,971)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing from line of credit	-0-	100,000
Repayments on line of credit	(100,000)	-0-
Principal payments on capital lease obligations	(8,260)	(10,916)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(108,260)	89,084
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(40,645)	19,366
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	451,338	431,972
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 410,693	\$ 451,338
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 3,603	\$ 4,050
NON-CASH INVESTING AND FINANCING ACTIVITIES		
During the year ended September 30, 2010 PFLAG received an allowance of approximately \$222,000 for leasehold improvements.		

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

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE A - 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 lesbian, gay, bisexual and transgender (LGBT) 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.

The following programs are included in the accompanying financial statements:

Policy and programs

PFLAG helps to strengthen chapters by fostering greater networking among chapters and allies in the same regions and states and building state leadership teams to coordinate activities. PFLAG also endeavors 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, marriage equality, hate crimes and more. PFLAG scholarships provide 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 program also provides PFLAG's chapters with a critical link to their local schools.

Outreach and education

PFLAG communicates its core messages through interviews, press releases, new media, social networking and other areas related to maintaining PFLAG's public presence at the national and local levels. The public also has access to PFLAG's messaging through the PFLAG websites. PFLAG coordinates public appearances by national leadership including appearances speaking about families with LGBT loved ones. PFLAG provides publications to members and the general public about sexual orientation, gender identity and relevant issues. PFLAG provides newsletters which inform members about PFLAG and public issues, and publishes a wide variety of resources for its chapter education programs. 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. 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.

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2011

NOTE A - 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 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.

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 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.

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.

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2011

NOTE A - 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 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.

**Prior Year
Information** The financial statements include certain prior year summarized comparative totals as of and for the year ended September 30, 2010. 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, 2010, from which the summarized information was derived.

Reclassifications Certain 2010 amounts have been reclassified for comparative purposes.

NOTE B - CONCENTRATIONS

As of September 30, 2011, one donor comprised 88% of the contributions and other receivables.

As of September 30, 2011, approximately 47% of PFLAG's employees are members of Office and Professional Employees International Union, Local 2, AFL-CIO (Union). PFLAG's contract with the Union is subject to renegotiation during 2012.

NOTE C - PENSION PLAN

PFLAG maintains a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code which is available to all non-union 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 approximately \$11,000 for the year ended September 30, 2011 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 (Continued)
September 30, 2011

NOTE D - CONTRIBUTIONS AND OTHER RECEIVABLES

In July 2007, PFLAG was notified that it was also the recipient of another bequest which will be paid in thirty-two quarterly installments until the fund is exhausted. The assets are held in a donor designated fund established by the decedent's estate. As of September 30, 2011, the value is estimated to be approximately \$788,000. The discount rate applied to the bequest is based on the July 31, 2007 U.S. Treasury rate of 4.96%.

The remaining contributions receivable at September 30, 2011 represent unconditional promises to give, which includes amounts from donors and are recorded at net realizable value.

PFLAG has recorded contributions receivable at the present value of estimated future cash flows at September 30, 2011. Contributions receivable as of September 30, 2011 are summarized below:

Description	Amount
Receivable in less than one year	\$ 313,832
Receivable in one to five years	672,438
Total contributions receivable	986,270
Less: discount to net present value	(90,933)
Net contributions receivable	\$ 895,337

NOTE E - CAPITAL LEASE

PFLAG is the lessee of certain office equipment under various capital leases. PFLAG is obligated under these leases through 2014. The assets and liabilities under the leases are recorded at the present value of the minimum lease payments. The assets are depreciated over the lesser of the estimated useful lives or the lease term. Depreciation of the assets under the leases is included in depreciation and amortization expense. The accumulated amortization as of September 30, 2011 was approximately \$17,000.

Minimum future lease payments under the leases as of September 30, 2011 are as follows:

<i>Year Ending September 30,</i>	Amount
2012	\$ 9,960
2013	9,960
2014	4,150
Total minimum lease payments	24,070
Less amount representing interest	(1,810)
Present value of total minimum lease payments	\$ 22,260

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2011

NOTE F - OPERATING LEASES

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, 2011, future minimum lease payments under the operating leases entered into by PFLAG that have remaining lease terms in excess of one year are as follows:

<i>Year Ending September 30,</i>	Amount
2012	\$ 198,698
2013	203,663
2014	208,762
2015	216,093
2016	223,009
Thereafter	928,539
Total	\$ 1,978,764

Occupancy expense totaled approximately \$190,000 for the year ended September 30, 2011.

NOTE G - COMMITMENTS

PFLAG has entered into agreements with a hotel to provide event, banqueting facilities and accommodations for its event to be held in April 2012. The agreements contain clauses whereby PFLAG is liable for liquidated damages in the event of cancellation or lower than anticipated attendance. At September 30, 2011, management of PFLAG has estimated that the amount of liquidated damages in the event of cancellation to be approximately \$36,000. 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 \$16,000. Management does not believe any cancellation under this contract will occur.

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2011

NOTE H – LINE OF CREDIT

At September 30, 2011, PFLAG had available a revolving line of credit (the Line of credit) of \$100,000 with a bank to be drawn upon as needed with an interest rate of 3.25% based on the Prime Rate as established from time to time by the bank. The Line of credit is secured by substantially all of PFLAG's assets. The Line of credit matures on March 22, 2012. As of September 30, 2011 the outstanding balance on the Line of credit was \$-0-.

NOTE I - RESTRICTIONS ON NET ASSETS

At September 30, 2011, PFLAG's temporarily restricted net assets consisted of the following:

Description	Amount
Straight for Equality Project	\$ 32,700
Scholarship/Safe Schools Program	72,728
National Safe Schools Roundtable	15,562
Time restriction	859,003
Total temporarily restricted	\$ 979,993

Net assets released from restrictions for the year ended September 30, 2011 were as follows:

Description	Amount
Publications	\$ 6,250
Straight for Equality Project	62,500
Scholarship/Safe Schools Program	45,754
National Safe Schools Roundtable	4,790
Policy and Programs	30,000
Time restriction	719,876
Total releases	\$ 869,170

NOTE J - EMPLOYMENT CONTRACT

Effective March 8, 2011, 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, 2011 to March 7, 2015. 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 \$80,000.

PARENTS, FAMILIES AND FRIENDS OF LESBIANS AND GAYS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2011

NOTE K - COLLECTIVE BARGAINING AGREEMENT

On September 4, 2009, PFLAG entered into a collective bargaining agreement with the Office and Professional Employees International Union, Local 2, AFL-CIO (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, 2012.

NOTE L - JOINT COST ALLOCATION

In 2011, PFLAG incurred joint costs of approximately \$415,000 for direct mail that included both a program component and a fundraising appeal. Of these costs, approximately \$168,000 was allocated to program services and \$247,000 was allocated to fundraising in the accompanying statement of functional expenses.

NOTE M – DONATED SERVICES

For the year ended September 30, 2011 the fair value of donated services are included in contributions and gifts, and special events revenue in the statement of activities. The corresponding program and supporting expenses for the year ended September 30, 2011, are as follows:

Description	Policy and programs	Outreach and education	Fundraising and development	General and administrative	Totals
Professional fees	\$ 33,878	\$ 24,639	\$ 15,399	\$ 3,080	\$ 76,996
Conferences, conventions and meetings	4,400	3,200	400	2,000	10,000
Total donated services	\$ 38,278	\$ 27,839	\$ 15,799	\$ 5,080	\$ 86,996

NOTE N - SUBSEQUENT EVENTS

Subsequent events were evaluated through April 2, 2012 which is the date the financial statements were available to be issued.