



PFLAG, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

PFLAG, INC.

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Independent Auditors' Report

The Board of Directors
PFLAG, Inc.
Washington, D.C.

We have audited the accompanying financial statements of PFLAG, Inc. (PFLAG), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PFLAG, Inc., as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



The Board of Directors
PFLAG, Inc.

Report on Summarized Comparative Information

We have previously audited PFLAG's September 30, 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated April 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
February 2, 2018

Certified Public Accountants

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION
 SEPTEMBER 30, 2017
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 177,728	\$ 803,390
Contributions Receivable	289,000	56,500
Other Receivables	137,256	68,157
Prepaid Expenses	54,197	70,756
Inventory	<u>45,837</u>	<u>41,820</u>
Total Current Assets	704,018	1,040,623
Investments	1,638,339	1,603,907
Investments, Deferred Compensation	11,112	18,430
Fixed Assets		
Furniture, Fixtures, and Office Equipment	138,885	138,885
Office Equipment under Capital Lease	12,135	12,135
Software	227,791	227,791
Leasehold Improvements	221,300	221,300
Website	<u>198,950</u>	<u>198,950</u>
	799,061	799,061
Less Accumulated Depreciation and Amortization	<u>(633,408)</u>	<u>(538,404)</u>
Net Fixed Assets	165,653	260,657
Security Deposit	<u>15,921</u>	<u>15,921</u>
Total Assets	<u><u>\$ 2,535,043</u></u>	<u><u>\$ 2,939,538</u></u>

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)
 SEPTEMBER 30, 2017
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 308,303	\$ 306,062
Deferred Rent	47,042	41,322
Obligation under Capital Lease	324	3,236
Deferred Revenue	<u>81,490</u>	<u>-</u>
Total Current Liabilities	437,159	350,620
Deferred Rent, Net of Current Portion	106,683	153,725
Deferred Compensation Payable	11,112	18,430
Obligation under Capital Lease, Net of Current Portion	-	557
Sublease Deposit Payable	<u>7,000</u>	<u>-</u>
Total Liabilities	561,954	523,332
Net Assets		
Unrestricted	1,271,064	1,926,277
Temporarily Restricted	339,525	127,429
Permanently Restricted	<u>362,500</u>	<u>362,500</u>
Total Net Assets	<u>1,973,089</u>	<u>2,416,206</u>
Total Liabilities and Net Assets	<u>\$ 2,535,043</u>	<u>\$ 2,939,538</u>

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenues					
Contributions and Gifts	\$ 1,862,986	\$ 319,928	\$ -	\$ 2,182,914	\$ 2,514,389
Donated Services	37,580	-	-	37,580	16,040
Chapter Dues	80,378	-	-	80,378	67,575
Training Service Fees	154,343	-	-	154,343	270,628
Publication Sales	73,262	-	-	73,262	40,106
Special Events (Net of Direct Expenses of Approximately \$89,000)	(694)	-	-	(694)	35,598
Net Investment Income	8,330	26,203	-	34,533	33,597
Other Income	-	-	-	-	4,724
Net Assets Released from Restrictions	134,035	(134,035)	-	-	-
Total Revenues	<u>2,350,220</u>	<u>212,096</u>	-	<u>2,562,316</u>	<u>2,982,657</u>
Expenses					
Program					
Chapter Network	1,262,349	-	-	1,262,349	1,473,065
Education and Advocacy	740,700	-	-	740,700	840,447
Total Program	<u>2,003,049</u>	-	-	<u>2,003,049</u>	<u>2,313,512</u>
Supporting					
Fundraising and Development	474,867	-	-	474,867	533,470
General and Administrative	527,517	-	-	527,517	349,943
Total Supporting	<u>1,002,384</u>	-	-	<u>1,002,384</u>	<u>883,413</u>
Total Expenses	<u>3,005,433</u>	-	-	<u>3,005,433</u>	<u>3,196,925</u>
Change in Net Assets	(655,213)	212,096	-	(443,117)	(214,268)
Net Assets, Beginning of Year	<u>1,926,277</u>	<u>127,429</u>	<u>362,500</u>	<u>2,416,206</u>	<u>2,630,474</u>
Net Assets, End of Year	<u>\$ 1,271,064</u>	<u>\$ 339,525</u>	<u>\$ 362,500</u>	<u>\$ 1,973,089</u>	<u>\$ 2,416,206</u>

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	Chapter Network	Education and Advocacy	Total Program	Fundraising and Development	General and Administrative	2017 Total	2016 Total
Salaries	\$ 611,661	\$ 372,519	\$ 984,180	\$ 172,958	\$ 136,375	\$ 1,293,513	\$ 1,574,347
Employee Benefits and Payroll Taxes	112,422	68,516	180,938	31,500	25,111	237,549	263,834
Professional Fees	94,952	35,467	130,419	76,691	274,203	481,313	273,442
Travel	18,802	65,873	84,675	14,145	14,644	113,464	213,007
Printing	92,747	12,665	105,412	37,865	265	143,542	148,311
Occupancy	86,590	54,745	141,335	22,738	18,244	182,317	206,941
Conferences, Conventions, and Meetings	15,660	3,105	18,765	69,386	490	88,641	87,479
Postage and Delivery	25,023	13,144	38,167	7,649	638	46,454	113,622
Depreciation and Amortization	44,983	27,426	72,409	12,536	10,059	95,004	63,612
Telecommunications	8,209	5,974	14,183	2,288	3,326	19,797	24,429
Scholarships and Awards	72,010	-	72,010	-	-	72,010	29,900
Advertising	274	2,000	2,274	608	30	2,912	200
Bank Charges and Merchant Bank Fees	5,595	3,412	9,007	1,559	1,251	11,817	19,934
IT Services	45,707	27,831	73,538	12,640	17,478	103,656	43,184
Supplies	307	2,264	2,571	2,386	599	5,556	11,625
Equipment and Maintenance	5,005	3,052	8,057	1,430	5,697	15,184	3,629
Staff Development and Appreciation	1,885	559	2,444	643	1,074	4,161	9,355
State Charitable Registrations	-	-	-	-	10,365	10,365	9,344
Miscellaneous	-	23	23	554	1,675	2,252	8,754
Dues and Subscriptions	1,051	706	1,757	2,840	106	4,703	3,052
List Rental	7,182	-	7,182	2,349	-	9,531	20,084
Insurance	6,696	4,083	10,779	1,866	3,459	16,104	18,971
Taxes and Licenses	-	-	-	-	2,238	2,238	1,758
Cost of Goods Sold	4,742	36,820	41,562	-	-	41,562	46,071
Interest	846	516	1,362	236	190	1,788	2,040
Total Expenses	\$ 1,262,349	\$ 740,700	\$ 2,003,049	\$ 474,867	\$ 527,517	\$ 3,005,433	\$ 3,196,925

See accompanying Notes to Financial Statements.

PFLAG, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	2017	2016
Cash Flows from Operating Activities		
Change in Net Assets	\$ (443,117)	\$ (214,268)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Depreciation and Amortization	95,004	63,612
Gain on Investments	(20,808)	(23,255)
<u>(Increase) Decrease in Assets</u>		
Contributions Receivable	(232,500)	773,263
Other Receivables	(69,099)	29,267
Prepaid Expenses	16,559	527
Inventory	(4,017)	(5,525)
Investments, Deferred Compensation	7,318	(18,430)
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	2,241	(61,122)
Deferred Rent	(41,322)	(35,734)
Deferred Revenue	81,490	(51,580)
Deferred Compensation Payable	(7,318)	18,430
Sublease Deposit Payable	7,000	-
	-	-
Net Cash (Used in) Provided by Operating Activities	(608,569)	475,185
Cash Flows from Investing Activities		
Purchases of Furniture, Fixtures, and Office Equipment	-	(156,760)
Proceeds from the Sales of Investments	2,381,588	1,205,267
Purchases of Investments	(2,395,212)	(1,278,260)
Net Cash Used in Investing Activities	(13,624)	(229,753)
Cash Flows from Financing Activities		
Principal Payments on Obligation under Capital Lease	(3,469)	(2,819)
Net Cash Used in Financing Activities	(3,469)	(2,819)
Net (Decrease) Increase in Cash and Cash Equivalents	(625,662)	242,613
Cash and Cash Equivalents, Beginning of Year	803,390	560,777
Cash and Cash Equivalents, End of Year	\$ 177,728	\$ 803,390
Supplementary Disclosure of Cash Flow Information		
Interest Paid	\$ 1,788	\$ 2,040

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

PFLAG, Inc. (PFLAG) was founded in 1972 with the simple act of a mother publicly supporting her gay son. PFLAG is the nation's largest family and ally organization. Uniting people who are lesbian, gay, bisexual, transgender, and queer (LGBTQ) with families, friends, and allies, PFLAG is committed to advancing equality and full societal affirmation of LGBTQ people through its threefold mission of support, education, and advocacy.

PFLAG has over 400 chapters and 200,000 members and supporters crossing multiple generations of American families in major urban centers, small cities, and rural areas in all 50 states.

This vast grassroots network is cultivated, resourced, and serviced by PFLAG, located in Washington, D.C., the National Board of Directors and 13 Regional Directors.

PFLAG envisions a world where diversity is celebrated and all people are respected, valued, and affirmed inclusive of their sexual orientation, gender identity, and gender expression. By meeting people where they are and collaborating with others, PFLAG realizes its vision through:

- Support for families, allies and people who are LGBTQ
- Education about the unique issues and challenges facing people who are LGBTQ
- Advocacy in communities to change attitudes and create policies and laws that achieve full equality for people who are LGBTQ

These activities are funded primarily through grants and contributions.

The following programs are included in the accompanying financial statements:

Chapter Network

The national office supports a chapter network that is majority volunteer-led by providing learning opportunities, leadership and partnership support, resources and technical assistance to create thriving chapters to carry out PFLAG's collective mission. Each year, PFLAG also assists new communities in forming new PFLAG chapters and work with new chapter leaders to continue to expand and enrich the mission activities in communities all over the country. These chapters in turn provide support, education and advocacy in their communities.

PFLAG helps to strengthen chapters by fostering greater networking among chapters and allies in the same regions and states. PFLAG provides newsletters which inform members about PFLAG and public issues, and publishes a wide variety of resources for its chapter education programs. Through PFLAG Academy Online, PFLAG provides learning opportunities for its members. PFLAG creates special events in communities across the country to educate the general public about its mission and offers opportunities for public engagement at the local and national levels.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Education and Advocacy

Through its partnerships, digital media, resources and visibility strategies, PFLAG provides education to the general public, the chapter network and PFLAG members. The visibility of the family and ally voice united with the LGBTQ community is a vital need to advance equality.

- PFLAG coordinates public appearances and presentations by national leadership to educate targeted audiences and the general public about families with LGBT loved ones.
- PFLAG provides publications to members and the general public about sexual orientation, gender identity and relevant issues.
- Through traditional and new media, PFLAG provides critical messaging, tools and resources related to family acceptance, community education and the importance of the ally voice.
- The signature projects of Cultivating Respect: Safe Schools for All and the PFLAG National Scholarship program are resources designed to bring visibility, tools and resources to LGBTQ youth to promote a safer educational environment for learning.
- The PFLAG National Scholarship Program provides an important, positive statement to a group of young people and their allies, LGBT people who are often marginalized and subjected to harassment and discrimination. The scholarship program also provides PFLAG's chapters with a critical link to their local schools.
- A Note to My Kid provides a repository of stories as new families embark on a journey of acceptance and celebration.
- Through it's Straight for Equality project, PFLAG educates and engages straight allies in a variety of forums including the workplace, healthcare facilities, and in faith communities.

PFLAG maintains a strong presence in Washington, D.C., to advocate with Congress, the White House and federal agencies to ensure laws and regulations reflect the concerns of PFLAG family voices. Partnership, coalition work and support of its chapters is also a part of PFLAG's activities to create stronger and more unified statewide PFLAG family voices to support families, educate communities and advocate for equality. Among the many advocacy issues are parenting rights, employment nondiscrimination, safer schools, inclusive and affirming faith communities, sustaining marriage equality, hate crimes and more. PFLAG also works with national partners to share its stories through written and public testimony as well as submission of amicus briefs on behalf of its membership.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

PFLAG is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business activities and is not considered a “private foundation” by the Internal Revenue Service.

PFLAG requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. PFLAG does not believe its financial statements include, or reflect, any uncertain tax positions.

PFLAG’s Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the taxing authorities generally for three years after filing.

Cash and Cash Equivalents

PFLAG considers as cash and cash equivalents all cash and highly liquid investments with maturities of three months or less, when purchased.

Contributions Receivable

Contributions receivable consist primarily of bequests and pledges from corporations, foundations and individuals. The management of PFLAG reviews the collectability of the contributions receivable on a regular basis. No reserve for doubtful accounts has been established since management expects to collect all contributions receivable in full.

Other Receivables

Other receivables consist primarily of amounts due from special events and training service fees. The management of PFLAG reviews the collectability of the other receivables on a regular basis. No reserve for doubtful accounts has been established since management expects to collect all other receivables in full.

Inventory

Inventory consists of products and publications that are sold and distributed to members and interested parties. Inventory is stated at the lower of cost or market and is valued using the first-in, first-out method of inventory valuation.

Investments

Investments are reported at the fair value based on quoted market prices on national exchanges for mutual funds and money market funds. Certificates of Deposit are valued using readily available pricing sources for comparable instruments. Realized and unrealized gains and losses are included with investment income in the statement of activities. Investment income is reported as an increase or decrease in unrestricted net assets, unless restricted by donor or law.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

PFLAG capitalizes all fixed asset acquisitions of \$1,500 and above. Fixed assets are recorded at cost, if purchased, or at fair market value at date of donation, if contributed. Depreciation is provided using the straight-line method over the estimated useful life of the asset or, for leasehold improvements, the shorter of the useful life or the remaining lease term. Expenditures for fixed assets and related betterments that extend the useful lives of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. PFLAG reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Training Service Fees

Training service fees are recognized as revenue in the year the training is provided.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by PFLAG. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Year Information

The financial statements include certain prior year summarized comparative totals as of and for the year ended September 30, 2016. 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, 2016, from which the summarized information was derived.

Reclassifications

Certain 2016 amounts have been reclassified for comparative purposes.

2. INVESTMENTS

Net investment income for the year ended September 30, 2017 consisted of the following:

<u>Description</u>	<u>Amount</u>
Interest and Dividends	\$ 19,736
Realized and Unrealized Gain	20,808
	<u>40,544</u>
Less Investment Fees	(6,011)
Net Investment Income	<u>\$ 34,533</u>

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could materially affect the reported balance of investments and net assets in the statement of financial position, and amounts reported in the statement of activities.

3. FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include equity securities or mutual funds);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate or municipal bonds);

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities and split-interest agreements).

PFLAG, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The following presents PFLAG's assets and liabilities measured at fair value as of September 30, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 335,010	\$ -	\$ -	\$ 335,010
Certificates of Deposit	-	902,962	-	902,962
Exchange Traded Funds	32,126	-	-	32,126
Mutual Funds - Equities	195,674	-	-	195,674
Mutual Funds - Fixed Income	172,567	-	-	172,567
Total Investments at Fair Value	735,377	902,962	-	1,638,339
Investments Deferred Compensation				
Mutual Funds	11,112	-	-	11,112
Total Assets at Fair Value	\$ 746,489	\$ 902,962	\$ -	\$ 1,649,451
Deferred Compensation Liability	\$ 11,112	\$ -	\$ -	\$ 11,112
Total Liabilities at Fair Value	\$ 11,112	\$ -	\$ -	\$ 11,112

4. DONATED SERVICES

For the year ended September 30, 2017, the fair value of donated services are included in contributions and gifts in the statement of activities. The corresponding program and supporting expenses for the year ended September 30, 2017 are as follows:

<u>Description</u>	<u>Chapter Network</u>	<u>Education and Advocacy</u>	<u>Fundraising and Development</u>	<u>General and Administrative</u>	<u>Total</u>
Professional Fees	\$ 10,166	\$ 27,414	\$ -	\$ -	\$ 37,580
Total Donated Services	\$ 10,166	\$ 27,414	\$ -	\$ -	\$ 37,580

5. JOINT COST ALLOCATION

During the year ended September 30, 2017, PFLAG incurred joint costs of approximately \$279,000 for direct mail that included both a program component and a fundraising appeal. Of these costs, approximately \$203,000 was allocated to program services, \$66,000 was allocated to fundraising and development expense and approximately \$10,000 was allocated to management and administrative expenses in the accompanying statement of functional expenses.

6. OPERATING LEASE

PFLAG has entered into a lease for office space and is obligated under the lease through 2020.

Under the terms of the lease, the base rent increases annually based on scheduled increases provided for in the lease. Also, under the terms of the lease, the lessor provided lease incentives totaling approximately \$222,000 to build out the office space. Under accounting principles generally accepted in the United States of America (GAAP) all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payments, as well as any unamortized lease incentives, are reflected as deferred rent in the accompanying statement of financial position.

PFLAG, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

6. OPERATING LEASE (CONTINUED)

As of September 30, 2017, future minimum lease payments under the operating lease are as follows:

<u>For the Years Ending September 30,</u>	<u>Amount</u>
2018	\$ 234,316
2019	240,170
2020	225,456
Total	<u>\$ 699,942</u>

During the year ended September 30, 2017, PFLAG entered into a month-to-month sublease agreement. Rental income under the sublease was approximately \$28,000 for the year ended September 30, 2017 and reduced occupancy expense in the statement of functional expenses.

7. TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2017, PFLAG's temporarily restricted net assets consisted of the following:

	<u>Amount</u>
Safe Schools Program	\$ 18,629
Arnold T. Schwab Endowment	31,896
Time Restriction	289,000
Total Temporarily Restricted	<u>\$ 339,525</u>

Net assets released from restrictions for the year ended September 30, 2017, were as follows:

	<u>Amount</u>
Scholarships	\$ 60,534
Safe Schools Program	17,001
Time Restriction	56,500
Total Releases	<u>\$ 134,035</u>

8. PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT

Permanently restricted net assets represent funds that are invested in perpetuity for the following purpose as of September 30, 2017:

	<u>Amount</u>
Arnold T. Schwab Scholarship	\$ 362,500
Total Permanently Restricted Net Assets	<u>\$ 362,500</u>

The Arnold T. Schwab Endowment Fund was established to provide scholarships.

The endowment consists of donor-restricted funds and, as required by GAAP, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

PFLAG, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

8. PERMANENTLY RESTRICTED NET ASSETS/ENDOWMENT (CONTINUED)

PFLAG has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, PFLAG classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PFLAG in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, PFLAG considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of PFLAG
- (7) The investment policies of PFLAG

Spending Policy

PFLAG received the endowment contributions during the year ended September 30, 2015, and is in the process of adopting a spending policy for the endowment.

PFLAG had the following changes in the endowment during the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 5,693	\$ 362,500	\$ 368,193
Contributions	-	-	-	-
Investment Income	-	4,495	-	4,495
Net Appreciation of Investments	-	21,708	-	21,708
Endowment Net Assets, End of Year	\$ -	\$ 31,896	\$ 362,500	\$ 394,396

9. PENSION PLANS

PFLAG maintains a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code which is available to all eligible employees. Employer matching contributions are made on behalf of employees with at least one year of service. PFLAG may also make additional employer contributions. Both employer and employee contributions are fully vested. Pension expense was approximately \$45,000 for the year ended September 30, 2017, and is included in employee benefits in the accompanying schedule of functional expenses.

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SEPTEMBER 30, 2017

9. PENSION PLANS (CONTINUED)

In 2016, PFLAG established a nonqualified 457(b) deferred compensation plan (the 457 Plan) for certain highly compensated employees. The 457 Plan requires that PFLAG establish and maintain a book entry account on behalf of the employees for all deferrals and investment experience related to the 457 Plan. Employer contributions are permitted. PFLAG is not liable for any specific investment success nor is it required to restore any loss of principal that may occur due to market conditions. Under current law, such funds remain the asset of PFLAG and, as such, are subject to the creditors of PFLAG.

10. EMPLOYMENT CONTRACT

Effective September 5, 2017, 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 September 5, 2017 to September 4, 2019. In the event of termination without cause, as defined in the Contract, PFLAG would be required to pay severance equal to the terms stipulated in the Contract.

11. COLLECTIVE BARGAINING AGREEMENT

On November 29, 2012, PFLAG entered into a collective bargaining agreement with the Office and Professional Employees International Union, Local 2, AFL-CIO (the Union) to act as the sole exclusive bargaining agent with respect to rates of pay and other conditions of employment for those employees occupying positions stipulated and agreed to by PFLAG and the Union. PFLAG is currently negotiating a new contract with the Union and is operating under the existing contract.

12. CONCENTRATIONS

PFLAG maintains cash balances at a financial institution located in Washington, D.C., which at times during the year exceeded the Federal Deposit Insurance Corporation insurance limit. Management believes the risk in these situations to be minimal.

As of September 30, 2017, three donors comprised 72% of contributions receivable. As of September 30, 2017, approximately 33% of PFLAG's employees are members of Office and Professional Employees International Union, Local 2, AFL-CIO.

13. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 2, 2018, which is the date the financial statements were available to be issued.