



Phoenix Pride, Inc.

Audited Financial Statements

December 31, 2016



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Phoenix Pride, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of Phoenix Pride, Inc. (an Arizona not-for-profit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities 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.

Auditor's 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 auditor's 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 auditor considers 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 Phoenix Pride, Inc. as of December 31, 2016, 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.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly or to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sandra A. Turner, CPA

Sandra A. Turner, CPA PC

July 14, 2017

PHOENIX PRIDE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

CASH AND CASH EQUIVALENTS	\$51,547
ACCOUNTS RECEIVABLE	10,826
PREPAID EXPENSES AND DEPOSITS	14,787
GOODWILL - RAINBOWS FESTIVAL	100,000
PROPERTY AND EQUIPMENT, NET	<u>83,140</u>
	<u><u>\$260,300</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$60,207
ACCRUED PAYROLL AND RELATED EXPENSES	23,899
PRIDE SCHOLARSHIPS PAYABLE	6,768
DEFERRED REVENUE	41,460
NOTES PAYABLE	<u>125,000</u>
	<u>257,334</u>

NET ASSETS

Unrestricted	(4,714)
Temporarily restricted	<u>7,680</u>
	<u>2,966</u>
	<u><u>\$260,300</u></u>

See Notes to Financial Statements

PHOENIX PRIDE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Contributions and grants	\$21,759	\$42,520	\$64,279
Phoenix Pride LGBT Center memberships	875	-	875
Festivals and other program revenue	1,560,118	4,016	1,564,134
Room rental and other income	3,378	-	3,378
Interest income	19	-	19
	<u>1,586,149</u>	<u>46,536</u>	<u>1,632,685</u>
Temporarily restricted net assets released from restrictions	51,719	(51,719)	-
	<u>1,637,868</u>	<u>(5,183)</u>	<u>1,632,685</u>
TOTAL PUBLIC SUPPORT AND REVENUE			
EXPENDITURES			
Program services			
Festivals	1,215,852		1,215,852
Phoenix Pride LGBT Center	132,270		132,270
Other programs	183,745		183,745
	<u>1,531,867</u>		<u>1,531,867</u>
Support services			
Management and general	111,418		111,418
Fundraising	69,119		69,119
	<u>1,712,404</u>		<u>1,712,404</u>
TOTAL EXPENDITURES			
CHANGE IN NET ASSETS	(74,536)	(5,183)	(79,719)
NET ASSETS, BEGINNING OF YEAR	<u>69,822</u>	<u>12,863</u>	<u>82,685</u>
NET ASSETS, END OF YEAR	<u><u>\$(4,714)</u></u>	<u><u>\$7,680</u></u>	<u><u>\$2,966</u></u>

See Notes to Financial Statements

PHOENIX PRIDE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Programs			Total	Management and General	Fundraising	Total
	Festivals	Phoenix Pride LGBT Center	Other Programs				
Salaries	\$117,644	\$42,552	\$27,534	\$187,730	\$17,521	\$45,055	\$250,306
Payroll benefits and taxes	20,770	7,513	4,861	33,144	3,092	7,954	44,190
	<u>138,414</u>	<u>50,065</u>	<u>32,395</u>	<u>220,874</u>	<u>20,613</u>	<u>53,009</u>	<u>294,496</u>
Grants and sponsorships	-	-	63,737	63,737	-	650	64,387
Pride scholarships	-	-	26,679	26,679	-	-	26,679
Event and program expenses	795,765	108	32,740	828,613	-	-	828,613
Promotion and marketing	126,113	-	3,101	129,214	2,915	170	132,299
Registrations and subscriptions	-	225	283	508	2,092	-	2,600
Professional and consulting fees	-	-	2,100	2,100	20,918	-	23,018
Occupancy	27,083	54,452	7,403	88,938	4,148	10,371	103,457
Information technology	-	1,871	974	2,845	7,607	3,278	13,730
Telephone and internet	-	4,965	-	4,965	8,365	-	13,330
Insurance	41,166	-	-	41,166	1,498	-	42,664
Postage	308	-	-	308	573	-	881
Printing and reproduction	9,411	1,833	807	12,051	-	-	12,051
Board of directors	-	-	-	-	1,164	-	1,164
Supplies	60,058	2,912	9,637	72,607	1,725	1,294	75,626
Bank and merchant fees	17,534	193	1,422	19,149	5,141	24	24,314
Meetings and training	-	141	-	141	2,179	323	2,643
Other expenses	-	-	1,240	1,240	-	-	1,240
Interest	-	-	-	-	6,352	-	6,352
Loss on disposal of fixed assets	-	-	-	-	22,926	-	22,926
Depreciation and amortization	-	15,505	1,227	16,732	3,202	-	19,934
	<u>\$1,215,852</u>	<u>\$132,270</u>	<u>\$183,745</u>	<u>\$1,531,867</u>	<u>\$111,418</u>	<u>\$69,119</u>	<u>\$1,712,404</u>

See Notes to Financial Statements

PHOENIX PRIDE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	<u>\$(79,719)</u>
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	19,934
Loss on disposal of property and equipment	22,926
(Increase) decrease in	
Accounts receivable	(1,311)
Prepaid expenses and deposits	1,094
Increase (decrease) in	
Accounts payable and accrued expenses	(28,181)
Accrued payroll and related expenses	4,342
Pride scholarship payable	(4,351)
Deferred rent	(24,813)
Deferred revenue	(15,874)
Total adjustments	<u>(26,234)</u>
Net cash used in operating activities	<u>(105,953)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(9,964)</u>
Net cash used in investing activities	<u>(9,964)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Funds received from notes payable	<u>125,000</u>
Net cash provided by financing activities	<u>125,000</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

9,083

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

42,464

CASH AND CASH EQUIVALENTS, END OF YEAR

\$51,547

PHOENIX PRIDE, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Phoenix Pride, Inc. (the Organization) was incorporated under the laws of the State of Arizona in September 1990. The Organization is a not-for-profit organization established for charitable, educational and social purposes dedicated to promoting unity, visibility and self-esteem among gay, lesbian, bisexual, transgender and queer persons (LGBTQ) through community activities and services. The organization's programs are offered in Phoenix and throughout the state of Arizona.

The Organization's programs include the Phoenix Pride Festival, the Phoenix Pride Parade, the Phoenix Pride LGBT Center, and other programs that serve the community and celebrate and promote the history, diversity and future prosperity of the metropolitan Phoenix LGBTQ community.

The Phoenix Pride LGBT Center is a resource and education center for the LGBTQ community. The Center provides a variety of services, resources and programs to the community. It offers support groups, wellness services, education, health resource materials and more. Programs and services are facilitated by experts, enthusiasts and volunteers. The Center offers individual and group memberships which support the Center and provide discounts to services and facilities.

The Organization's programs provide community grants and scholarships to organizations and individuals in the LGBTQ community. Community grant and partnership programs provide financial grants and support to not-for-profit organizations serving Maricopa County's LGBTQ community. Since inception of the grants and partnership programs in 2008, the Organization has provided more than \$546,000 in community support to not-for-profit organizations.

The Phoenix Pride Scholarship Program provides scholarships to self-identified LGBTQ college students. Since inception of the scholarship program in 2008, the scholarship program has awarded \$172,500 in scholarships paid by Arizona Community Foundation on behalf of the Organization. The Organization funds these scholarships by making annual contributions to the endowment fund at Arizona Community Foundation (see Note 2).

The Organization funds its programs and operations through grants, contributions, memberships, festivals, and fundraising activities.

Accounting Framework

The Organization follows standards of accounting and financial reporting for not-for-profit organizations as described in the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Organizations* and standards promulgated by the American Institute of Certified Public Accountants for not-for-profit organizations in accordance with FASB ASC 958 in conformity with United States of America generally accepted accounting principles. Accordingly, the financial statements are prepared on the accrual basis of accounting. Under this method of accounting, revenue and expenses are identified with specific periods of time and are recorded as earned and incurred, respectively, without regard to the date of receipt or payment. The Organization's activities are reported according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

(Note 1 continued on next page)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization, at times, maintains cash at financial institutions in excess of the \$250,000 per bank limit insured by the Federal Deposit Insurance Corporation (FDIC). The Organization manages this risk by maintaining funds at high level financial organizations and minimizing the length of time the account balances exceed the insured limit. Management believes these measures minimize the credit risk in its cash accounts.

Contributions

Contribution revenue is recognized when the Organization is notified of the existence of a pledge or receives a contribution. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as released from restrictions.

Accounts Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as pledges or accounts receivable at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at the net present value of expected cash flows. The Organization provides an allowance for estimated uncollectible amounts.

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, knowledge of the donors and the industry and other circumstances which may affect the ability of donors to meet their obligations. It is the Organization's policy to charge off uncollectible amounts when management determines the receivable will not be collected. The Organization determined an allowance was not required at December 31, 2016.

Goodwill – Rainbows Festival

The acquisition of the Rainbows Festival in 2011 resulted in recognizing goodwill of \$100,000. Under generally accepted accounting principles, the carrying amount of goodwill is not amortized but is reduced if management determines that its implied fair value has been impaired.

Donated Assets and Services

Donated assets, services and other non-cash donations are recorded as contributions at their estimated values at the date of donation. Donated services and time are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization pays for most services requiring specific expertise. However, if such services are donated and the value is ascertainable, the fair market value is reflected in the financial statements as revenue and expense. For the year ended December 31, 2016, the Organization received festival and other program donated supplies of approximately \$37,950, donated advertising of approximately \$106,500 and donated professional services of approximately \$78,600.

(Note 1 continued on next page)

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

In addition, the Organization received numerous hours of donated services by volunteers dedicated to the Organization's programs. The fair value of these donated services is not recognized in the statement of activities since they do not meet the criteria for recognition under generally accepted accounting principles.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and a useful life of more than one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the respective assets.

The Organization reviews its valuation of property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment losses were recorded in 2016.

Deferred Revenue

Deferred revenue consists of sponsorships festivals that will be used in the subsequent year. These deferred funds will be returned to the donor if not used for the specified purpose. However, the Organization plans on using all deferred funding recorded at December 31, 2016 in the subsequent fiscal year.

Functional Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the programs and support services benefited based on management's estimate of employee hours devoted to each function

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Phoenix Pride, Inc. is a not-for-profit organization exempt from federal and state income taxes under the provisions of the Internal Revenue Code Section 501(c)(3). Income determined to be unrelated business taxable income may be taxable to the Organization. The Organization did not report any unrelated business taxable income for 2016. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(11) and is classified as an organization other than a private foundation under Section 509(a)(2).

Subsequent Events

Subsequent events have been evaluated by the Organization for potential recognition or disclosure through July 14, 2017, which was the date the Organization's financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 2 – ARIZONA COMMUNITY FOUNDATION PRIDE SCHOLARSHIP FUND

The Organization established the Pride Scholarship Fund with an endowment contribution to the Arizona Community Foundation, a community foundation that promotes and facilitates philanthropy. The Organization does not record this endowment on its financial statements as it gave control of the endowment funds to the Arizona Community Foundation to manage and facilitate scholarships from the earnings on the endowment. At its discretion, the Organization may make discretionary contributions to the fund. The Fund has an accumulated balance of approximately \$61,014 at December 31, 2016.

The Organization made a contribution to the Pride Scholarship Fund of approximately \$26,680 for the year ended December 31, 2016. At year end December 31, 2016, approximately \$6,770 of this contribution is accrued as payable.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2016:

Furniture and equipment	\$88,037
Computers and software	33,867
Trademarks	1,400
	<u>123,304</u>
Accumulated depreciation and amortization	<u>(40,164)</u>
	<u><u>\$83,140</u></u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following at December 30, 2016:

LGBTQ History Project	<u><u>\$7,680</u></u>
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NOTE 5 – NOTES PAYABLE

The Organization entered into an unsecured non-revolving line of credit promissory note with Arizona Community Foundation, Inc. on November 15, 2016. The promissory note allows for advances up to a total of \$150,000. The balance of the note payable at December 31, 2016 is \$100,000. Subsequent to year end in May 2017, the remaining \$50,000 was advanced under the promissory note.

(Note 5 continued on next page)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Interest only payments are allowed for six months at 4% four percent interest. Beginning June 1, 2017 repayment of the note is required in 48 monthly installments of \$3,833.20, including interest at four percent, with a final payment due November 1, 2020.

Principal payment due under the note payable is as follows at December 31, 2016: 2017 - \$23,635; 2018 - \$41,703; 2019 - \$43,402; and 2020 - \$41,260.

The Organization entered into an unsecured promissory note with Boston Pride, Inc. on August 16, 2016. The balance of the note payable at December 31, 2016 is \$25,000. All accrued interest and principal are due in a single payment on April 3, 2017.

Principal payment due under the note payable is as follows at December 31, 2016: 2017 - \$25,000.

NOTE 6 – OPERATING LEASES

The Organization was contracted to leases office space under noncancelable operating leases through July 2019. The rental expense under these leases was approximately \$73,670 for the year ended December 31, 2016. Lease terms include periods of free rent. The reduction in expenses of \$21,860 for deferred rent is included in rent expense for the year ended December 31, 2016.

On September 15, 2016, the Organization negotiated a cancelation of the remaining lease obligations as of December 31, 2016 for consideration of the security deposit on the lease being retained by the landlord. The Organization is not obligated for additional lease payments after December 31, 2016.

In December 2016, the Organization signed a noncancelable operating lease beginning January 1, 2017 through December 31, 2019. Lease terms include three months of free rent under the agreement.

Future minimum annual payments required on the above operating leases are as follows at December 31, 2016: 2017 - \$24,851; 2018 - \$32,785; and 2019 - \$30,054.

NOTE 7 – DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization sponsors a defined contribution SIMPLE-IRA plan covering qualified employees, as defined. The Organization contributes a matching contribution based on the employee's elective contribution up to a maximum of three percent of the employee's annual compensation. The Organization made matching contributions of approximately \$4,010 to the plan for the year ended December 31, 2016.