Phoenix Pride, Inc.
Financial Statements
For the Year Ended December 31, 2017

PHOENIX PRIDE, INC.
DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Phoenix Pride, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Phoenix Pride, Inc. (Organization) which comprise the statement of financial position as of December 31, 2017, 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, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as identified in the table of contents 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 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.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
April 15, 2018

PHOENIX PRIDE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

Assets		
Current assets:		
Cash and cash equivalents	$	102,508
Accounts receivable		11,782
Prepaid expenses and deposits		7,480
Total current assets		121,770
Noncurrent assets:		
Goodwill - Rainbows Festival		100,000
Property and equipment, net of accumulated depreciation		11,529
Total noncurrent assets		111,529
Total assets	$	233,299
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$	5,039
Accrued payroll and related expenses		9,044
Pride scholarship payable		12,730
Deferred revenue		72,113
Notes payable		41,700
Total current liabilities		140,626
Noncurrent liabilities:		
Notes payable		84,733
Total noncurrent liabilities		84,733
Total liabilities		225,359
Net assets		
Unrestricted		5,089
Temporarily restricted		2,851
Total net assets		7,940
Total liabilities and net assets	$	233,299

See accompanying notes to financial statements.

PHOENIX PRIDE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Contributions and grants	$ 49,820	$ 3,921	53,741
Festivals and other program revenue	1,649,667		1,649,667
Interest income	68		68
Total revenue and support	1,699,555	3,921	1,703,476
Net assets released from restrictions	8,750	(8,750)	
Total revenue, support, and net assets released	1,708,305	(4,829)	1,703,476
Expenses:			
Program expenses			
Festivals	1,282,767		1,282,767
Other programs	195,862		195,862
Total program expenses	1,478,629		1,478,629
Supporting services			
Management and general	74,364		74,364
Fundraising	74,598		74,598
Total supporting services	148,962		148,962
Total expenses	1,627,591		1,627,591
Change in net assets	80,714	(4,829)	75,885
Net assets (deficit), beginning of year, as restated	(75,625)	7,680	(67,945)
Net assets (deficit), end of year	$ 5,089	$ 2,851	$ 7,940

See accompanying notes to financial statements.

PHOENIX PRIDE, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:		
Change in net assets	$	75,885
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Amortization and depreciation		700
Changes in assets and liabilities:		
Accounts receivable		(956)
Prepaid expenses and deposits		7,307
Accounts payable		(55,168)
Accrued payroll		(14,855)
Pride scholarship payable		5,962
Deferred revenue		30,653
Net cash provided by operating activities		49,528
Cash flows from financing activities:		
Proceeds from loan		50,000
Principal payments on debt		(48,567)
Net cash provided by financing activities		1,433
Net increase in cash and cash equivalents		50,961
Cash and cash equivalents, beginning of year		51,547
Cash and cash equivalents, end of year	$	102,508

Supplemental disclosure of noncash investing and financing activities:

Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	4,217

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 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 Festival, the Phoenix Pride Parade, and the Rainbows Festival are Phoenix Pride's main sources of revenue.

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 $608,000 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 $207,500 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 more significant accounting policies are described below.

A. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Organization is required to report information regarding its financial position and activities according to three classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general purposes. The Organization has no permanently restricted net assets.

C. Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

D. Expense Allocation

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

E. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Donated Assets and Services

Donated marketable securities and other noncash donations are recorded as contributions at their fair 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.

G. Cash and Cash Equivalents

For purposes of the Statement 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); however, there was no uninsured cash at year end. 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.

H. Accounts Receivable

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, third-party contracts, and other circumstances, which may affect the ability of obligations to be met. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Accounts receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary at fiscal year end.

I. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Property and Equipment

All acquisitions of property and equipment with a cost in excess of $3,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from seven to 10 years. Depreciation expense for the current fiscal year was $700.

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 2017.

K. Deferred Revenue

Deferred revenue consists of sponsorships for festivals that will be used in the subsequent year. These deferred funds will be returned to the donor if not used for the specific purpose. However, the Organization plans on using all deferred funding recorded at December 31, 2017 in the subsequent fiscal year.

L. Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. 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 2017. 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). The Organization's Form 990, *Return of Organization Exempt from Income Taxes*, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

M. Subsequent Events

Subsequent events have been evaluated through April 15, 2018, which is the date the financial statements were available to be issued.

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 $66,747 at December 31, 2017.

The Organization made a contribution to the Pride Scholarship Fund of approximately $39,212 for the year ended December 31, 2017. At year end, approximately $12,730 of this contribution is accrued as payable.

NOTE 3– PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017:

Vehicles and equipment	$ 12,965
Less accumulated depreciation and amortization	(1,436)
Net property and equipment	$ 11,529

NOTE 4 – TEMPORARILY RESTICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets of $2,851 are restricted for the LGBTQ History Project.

NOTE 5 – NOTES PAYABLE

Phoenix Pride entered into a promissory note with the Arizona Community Foundation, Inc. on November 15, 2016. The promissory note allows for advances of up to a total of $150,000. Phoenix Pride has been advanced this full amount. The balance of the note payable at December 31, 2017 is $126,433.

Interest only payments are allowed for six months at four percent interest. Beginning on June 1, 2017, repayment of the note is required in 48 monthly installments of $3,833, including interest at four percent, with the final payment due on November 1, 2020.

NOTE 5 – NOTES PAYABLE

The future scheduled maturities of the notes payable are as follows:

Year End:			
	2018	$	41,700
	2019		43,398
	2020		41,335
Total		$	126,433

NOTE 6 – OBLIGATIONS UNDER OPERATING LEASES

The Organization signed a non-cancellable operating lease for office space beginning on January 1, 2017 through December 31, 2019. Rental expenses for the lease consisted of $24,851 for the current fiscal year.

Future minimum payments under the operating lease are:

Year End:			
	2018	$	32,785
	2019		33,654
Total minimum payments required		$	66,439

NOTE 7 – DONATED ASSETS AND SERVICES

The fair value of donated assets and services included as festival revenue in the financial statements and the corresponding program expenses for the current year ended is as follows:

		Total
Services	$	84,400
Supplies		86,149
Advertising		98,500
Total	$	269,049

In addition, the Organization received numerous hours of donated service 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.

NOTE 8 – EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Organization sponsors a defined contribution Simple IRA plan (the 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. Due to limited resources, the Organization did not make any matching contributions for the year ended December 31, 2017.

NOTE 9 – ADVERTISING

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the current fiscal year, advertising costs totaled $128,940. Of this amount, $98,500 was donated.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

The January 1, 2017 net assets do not agree to the prior year financial statements due to a reclassification of property and equipment. Many of the assets previously capitalized as property and equipment did not meet the Organization's previous capitalization threshold of $1,000. In addition, the Organization implemented a capitalization threshold policy change from $1,000 to $3,000 during the fiscal year.

	Unrestricted
Net assets, December 31, 2016, as previously reported	$ (4,714)
Property and equipment errors and threshold changes	(70,911)
Net assets, December 31, 2016, as restated	$ (75,625)

SUPPLEMENTARY INFORMATION

PHOENIX PRIDE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Programs					
	Festivals	Other Programs	Total	Management and General	Fundraising	Total
Salaries & wages	$ 141,489	$ 20,539	$ 162,028	$ 20,539	$ 45,642	$ 228,209
Payroll benefits and taxes	20,482	2,975	23,457	2,973	6,606	33,036
	161,971	23,514	185,485	23,512	52,248	261,245
Event expenses	894,780	-	894,780	-	-	894,780
Promotion and marketing	124,454	-	124,454	4,486	-	128,940
Charitable contributions and grants	-	55,215	55,215	-	-	55,215
Pride scholarships	-	39,212	39,212	-	-	39,212
Registrations and subscriptions	-	-	-	2,846	-	2,846
Professional and consulting fees	11,530	721	12,251	12,140	15,271	39,662
Occupancy	26,900	6,022	32,922	3,213	4,016	40,151
Information technology	12,716	2,847	15,563	2,729	1,898	20,190
Telephone and internet	6,261	1,402	7,663	748	934	9,345
Insurance	-	-	-	1,693	-	1,693
Postage	337	-	337	794	-	1,131
Printing and reproduction	9,134	454	9,588	-	-	9,588
Board of Directors	-	-	-	3,557	-	3,557
Supplies	14,297	65,394	79,691	8,485	-	88,176
Bank and merchant fees	18,118	97	18,215	8,955	-	27,170
Meetings and training	1,724	941	2,665	230	231	3,126
Other expenses	-	-	-	864	-	864
Depreciation	545	43	588	112	-	700
Total expenses	$ 1,282,767	$ 195,862	$ 1,478,629	$ 74,364	$ 74,598	$ 1,627,591