SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

FINANCIAL STATEMENTS

For the years ended June 30, 2018 and 2017

with

Report of Independent Auditors

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

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CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Directors of
San Francisco Lesbian Gay Bisexual Transgender Community Center:

We have audited the accompanying financial statements of San Francisco Lesbian Gay Bisexual Transgender Community Center, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

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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 San Francisco Lesbian Gay Bisexual Transgender Community Center as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 26, 2018, on our consideration of San Francisco Lesbian Gay Bisexual Transgender Community Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Francisco Lesbian Gay Bisexual Transgender Community Center's internal control over financial reporting and compliance.

Novogradac & Company LLP

Long Beach, California
December 26, 2018

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 242,819	$ 193,920
Accounts receivable, net	93,312	69,111
Grants and pledges receivable	416,507	158,002
Prepaid expenses	18,436	12,905
Note receivable - current portion (Note 5)	60,513	59,004
Total current assets	831,587	492,942
Noncurrent assets		
Restricted cash (Note 3)	281,164	1,014,680
Note receivable, net (Note 5)	218,092	274,246
Fixed assets, net (Note 2)	14,210,291	14,579,456
Deferred charges, net (Note 2)	31,355	42,517
Artwork and other assets	15,000	15,000
Total noncurrent assets	14,755,902	15,925,899
Total assets	$ 15,587,489	$ 16,418,841
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 340,756	$ 758,200
Unearned revenue (Note 9)	-	24,923
Deposits and funds held for others	53,874	47,175
Short term loans (Note 4)	5,000	5,000
Notes payable - current portion (Note 6)	12,126	162,559
Total current liabilities	411,756	997,857
Noncurrent liabilities		
Notes payable, net (Note 6)	9,972,318	9,941,572
Total noncurrent liabilities	9,972,318	9,941,572
Total liabilities	10,384,074	10,939,429
Net assets		
Unrestricted		
Board designated reserve	35,000	35,000
Undesignated	5,147,269	5,399,080
Total unrestricted	5,182,269	5,434,080
Temporarily restricted (Note 7)	21,146	45,332
Total net assets	5,203,415	5,479,412
Total liabilities and net assets	$ 15,587,489	$ 16,418,841

see accompanying notes

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2018

	Unrestricted	Temporarily restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE			
Public support:			
Government grants	$ 1,630,934	$ -	$ 1,630,934
Donations	677,776	-	677,776
Foundation and corporate	230,507	209,000	439,507
Fundraising events	172,456	-	172,456
Total public support	2,711,673	209,000	2,920,673
Other revenues:			
Facility rental	757,740	-	757,740
Program revenue	73,854	-	73,854
Total other revenues	831,594	-	831,594
Net assets released from temporary donor restriction	233,186	(233,186)	-
Total public support and other revenues	3,776,453	(24,186)	3,752,267
EXPENDITURES			
Program services	2,788,290	-	2,788,290
Management and general	171,778	-	171,778
Fundraising	505,649	-	505,649
Total expenditures	3,465,717	-	3,465,717
Change in net assets before amortization and depreciation	310,736	(24,186)	286,550
Depreciation expense	551,385	-	551,385
Amortization expense	11,162	-	11,162
Total amortization and depreciation	562,547	-	562,547
Change in net assets	(251,811)	(24,186)	(275,997)
NET ASSETS AT BEGINNING OF YEAR	5,434,080	45,332	5,479,412
NET ASSETS AT END OF YEAR	$ 5,182,269	$ 21,146	$ 5,203,415

see accompanying notes

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2017

	Unrestricted	Temporarily restricted	Total
PUBLIC SUPPORT AND OTHER REVENUE			
Public support:			
Government grants	$ 1,199,347	$ -	$ 1,199,347
Donations	470,286	-	470,286
Foundation and corporate	419,300	259,900	679,200
Fundraising events	113,430	-	113,430
In-kind support	15,001	-	15,001
Total public support	2,217,364	259,900	2,477,264
Other revenues:			
Facility rental	396,268	-	396,268
Program revenue	121,871	-	121,871
Total other revenues	518,139	-	518,139
Net assets released from temporary donor restriction	247,303	(247,303)	-
Total public support and other revenues	2,982,806	12,597	2,995,403
EXPENDITURES			
Program services	2,367,167	-	2,367,167
Management and general	201,070	-	201,070
Fundraising	455,984	-	455,984
Total expenditures	3,024,221	-	3,024,221
Change in net assets before depreciation	(41,415)	12,597	(28,818)
Depreciation expense	427,159	-	427,159
Change in net assets	(468,574)	12,597	(455,977)
NET ASSETS AT BEGINNING OF YEAR	5,902,654	32,735	5,935,389
NET ASSETS AT END OF YEAR	$ 5,434,080	$ 45,332	$ 5,479,412

see accompanying notes

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

	Program Services				Support Services		
EXPENSES	Economic Development	Community Program	Facilities and Building	Youth	Management and General	Fundraising	Total
Salaries	$ 443,460	$ 157,916	$ 302,403	$ 394,328	$ 116,720	$ 264,787	$ 1,679,614
Employee benefits	22,292	13,566	50,834	28,298	7,306	11,743	134,039
Payroll taxes	36,833	13,509	25,721	33,480	9,531	22,607	141,681
Total personnel	502,585	184,991	378,958	456,106	133,557	299,137	1,955,334
Grant expenses	-	-	167,088	-	-	-	167,088
Professional services	132,673	12,662	14,640	141,791	238	45,368	347,372
Dues, service fees, and insurance	10,553	2,817	7,273	8,741	2,282	3,726	35,392
Program supplies and materials	16,699	28,443	12,242	105,543	-	727	163,654
Interest	-	-	372,585	-	268	-	372,853
Equipment rental	10,419	2,386	6,574	10,660	1,708	4,971	36,718
Conferences and meetings	2,336	117	201	2,725	120	634	6,133
Direct mail and donor cultivation	-	-	-	-	-	123,402	123,402
Occupancy	-	7,853	105,216	-	-	1,443	114,512
Office expense	27,652	10,416	13,163	18,197	33,586	25,829	128,843
Travel and meals	2,338	128	892	10,627	19	412	14,416
Total expenses	$ 705,255	$ 249,813	$ 1,078,832	$ 754,390	$ 171,778	$ 505,649	$ 3,465,717

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

	Program Services				Support Services		
EXPENSES	Economic Development	Community Program	Facilities and Building	Youth	Management and General	Fundraising	Total
Salaries	$ 426,155	$ 174,859	$ 236,136	$ 214,486	$ 145,089	$ 234,366	$ 1,431,091
Employee benefits	33,742	11,129	37,330	14,541	8,155	13,964	118,861
Payroll taxes	35,837	13,139	19,920	19,658	10,159	20,087	118,800
Total personnel	495,734	199,127	293,386	248,685	163,403	268,417	1,668,752
Grant expenses	-	-	272,482	-	-	-	272,482
Professional services	120,478	111,107	16,687	51,562	62	31,874	331,770
Dues, service fees, and insurance	9,093	5,081	6,894	5,453	1,797	3,913	32,231
Program supplies and materials	9,680	26,204	16,572	33,471	-	37	85,964
Interest	-	-	180,270	-	72	-	180,342
Equipment rental	9,708	4,543	7,176	8,141	1,680	4,233	35,481
Conferences and meetings	225	600	-	1,492	129	55	2,501
Direct mail and donor cultivation	-	-	-	-	-	126,790	126,790
Occupancy	-	3,073	160,890	-	-	-	163,963
Office expense	19,085	9,780	24,877	8,200	33,912	19,609	115,463
Travel and meals	2,507	226	549	4,129	15	1,056	8,482
Total expenses	$ 666,510	$ 359,741	$ 979,783	$ 361,133	$ 201,070	$ 455,984	$ 3,024,221

see accompanying notes

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (275,997)	$ (455,977)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Interest expense - debt issuance costs	38,436	12,693
Depreciation expense	551,385	427,159
Amortization expense	11,162	-
Changes in assets and liabilities:		
Increase in accounts receivable	(24,201)	(49,735)
(Increase) decrease in grants and pledges receivable	(258,505)	350,837
Increase in prepaid expenses	(5,531)	(1,926)
Increase in accounts payable and accrued expenses	23,884	13,225
(Decrease) increase in unearned revenue	(24,923)	24,923
Increase (decrease) in deposits and funds held for others	6,699	(527,590)
Net cash provided by (used in) operating activities	42,409	(206,391)
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawals from restricted cash	733,516	4,495,077
Payments received on loans receivable	54,645	66,750
Purchases of fixed assets	(623,548)	(5,189,429)
Net cash provided by (used in) investing activities	164,613	(627,602)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from notes payable	-	200,000
Payments on notes payable	(158,123)	(49,384)
Net cash (used in) provided by financing activities	(158,123)	150,616
NET CHANGE IN CASH AND CASH EQUIVALENTS	48,899	(683,377)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	193,920	877,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 242,819	$ 193,920
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 334,417	$ 167,649
Cash paid for interest capitalized into fixed assets	$ -	$ 151,909

see accompanying notes

SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF CASH FLOWS (CONTINUED)

For the years ended June 30, 2018 and 2017

	2018	2017
NONCASH TRANSACTION FROM INVESTING AND FINANCING ACTIVITIES		
Interest expense - debt issuance costs capitalized into fixed assets	$ -	$ 27,715
Increase in fixed assets due to accounts payable	$ 62,500	$ 503,828

see accompanying notes

1. Organization

San Francisco Lesbian Gay Bisexual Transgender Community Center (the "Organization") is a California nonprofit public benefit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1986. The Organization was organized in 1996 and serves as the social, cultural, and civic center for the Bay Area's lesbian, gay, bisexual, and transgender ("LGBT") communities. The Organization is to qualify and operate as a qualified active low-income community business ("QALICB") in compliance with Internal Revenue Code ("IRC") Section 45D and the related Treasury Regulations pursuant to the New Markets Tax Credit ("NMTC") program requirements. The Organization's programs include:

1. **Economic Development** assists LGBT jobseekers in finding safe and secure living-wage employment, help LGBT-run businesses grow, increase LGBT community financial assets, and eliminate barriers to transgender economic success.
2. **Community Programs** include programs that support individual members of the community and celebrate lesbian, gay, bisexual, transgender, and queer arts & culture. Programs include:
   i. **A robust information and referral program** serving visitors with information and referrals which include mental health services, sexual and/or domestic abuse, HIV/AIDS or general health/health access.
   ii. **Community and Policy Initiatives** empower community members and respond to important emerging community and policy issues such as marriage equality and employment protection. These programs are conceived, designed and implemented for and by community members, and are supported by center staff.
   iii. **Arts and Culture** hosts art exhibits and collaborative programs to increase the visibility of LGBT artists and public access to cultural activities.
3. **Transitional Age Youth** who are primarily homeless receive leadership development, mental health resources, referral navigation, and access to free meals, food, clothing, and daily activities in our drop in program.
4. **Building Facilities** manages our 35,000 square feet state-of-the-art facility, which is open six days a week. We provide a total of 15,000 square feet of office space for 4 non-profit organizations and host over 3,000 events each year ranging from 12-step meetings to town halls to readings and lectures. The Cyber Center provides free computer access.

2. Summary of significant accounting policies

Basis of accounting
The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation
The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

2. Summary of significant accounting policies (continued)

Basis of presentation (continued)
Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations that may or will be expendable by the board for any purpose in performing the Organization's primary objectives.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that may or will be met either by the Organization's actions and/or the passage of time.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations whereby the resources are to be preserved in perpetuity.

Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations
The Organization acquires, renovates and leases out commercial space located in San Francisco County, California. Future operations could be affected by changes in the economic conditions in that geographic area. The Organization also receives a large portion of its support from local government sources. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's program and activities.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for funding of debt service, capital replacements, and construction. Restricted cash does not fall under the criteria for temporarily or permanently restricted net assets as these funds are held for operational purposes rather than donor imposed restrictions.

Concentration of credit risk
The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

2. Summary of significant accounting policies (continued)

Receivables
Receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of June 30, 2018 and 2017, the balance of the allowance for doubtful accounts was $4,348 and $2,350, respectively.

Notes receivable and allowance for loan losses
Loans receivable are stated at unpaid principal balances, less an allowance for loan losses and net of deferred loan origination fees and unearned discounts, as applicable.

The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan loss experience, known and other risks inherent in the portfolio, specific impaired loans, and adverse situations. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Organization considers a loan impaired when based on current information or factors, it is probable that the Organization will not collect the principal and interest payments according to the loan agreement. Management considers many factors in determining whether a loan is impaired, such as payment history and value of collateral. Loans that are contractually delinquent less than 90 days are generally not considered impaired, unless the borrower has claimed bankruptcy or the Organization has received specific information concerning the loan impairment. The Organization reviews delinquent loans to determine impaired accounts. The Organization measures impairment on a loan-by-loan basis by either using the fair value of collateral or the present value of expected cash flows. None of the Organization loans are impaired as of June 30, 2018 and 2017.

The Organization's key credit quality indicator is a loan's performance status, defined as accruing or non-accruing. Performing loans are considered to have a lower risk of loss, while nonaccrual loans are those which the Organization believes have a higher risk of loss. Loans that are 90 days or more past due, based on the contractual terms of the loan, are classified on nonaccrual status. Loans may also be placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received and the principal balance is believed to be collectible. There were no loans on nonaccrual status as of June 30, 2018 or 2017.

2. Summary of significant accounting policies (continued)

Notes receivable and allowance for loan losses (continued)

A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. Loans may also resume accruing interest if management no longer believes a loan is impaired or the collection of principal and interest is no longer in doubt. As of June 30, 2018 and 2017, management believes that the Organization's loans receivable are fully collectible and as such, the allowance for loan losses was zero for both years.

Fixed assets and depreciation

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over $1,000 and improvements to property over $5,000; the fair value of donated fixed assets is similarly capitalized. Construction in progress is recorded at cost and once placed in service, will be depreciated over its estimated useful life. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	5 - 40 years
Furniture and equipment	3 - 5 years
Computer and software	3 - 5 years

As of June 30, 2018 and 2017, fixed assets consist of:

	2018	2017
Land	$ 220,000	$ 220,000
Building and improvements	19,700,201	19,555,241
Furniture and equipment	486,202	475,156
Computer and software	219,199	192,985
Total fixed assets	20,625,602	20,443,382
Less: accumulated depreciation	(6,415,311)	(5,863,926)
Fixed assets, net	$ 14,210,291	$ 14,579,456

Deferred charges and amortization

Deferred charges are recorded at cost and amortized ratably over the 120-month period of the BALA Leases, as defined in Note 9, using the straight-line method. As of June 30, 2018 and 2017, deferred charges consist of:

	2018	2017
Lease costs	$ 42,517	$ 42,517
Less: accumulated amortization	(11,162)	-
Deferred charges, net	$ 31,355	$ 42,517

2. Summary of significant accounting policies (continued)

Impairment of long-lived assets
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized as of June 30, 2018 and 2017.

Debt issuance costs
The Organization presents debt issuance costs as an offset against debt on its financial statements. Debt issuance costs are amortized to interest expense using the effective interest method over the life of the associated loan.

Contributions
Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

Revenue recognition
Revenue from grants will be recognized over the term of the respective agreements.

Revenue resulting from special events and other income are recorded when earned.

Interest income is recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes. Advance interest payments are deferred and classified as liabilities until earned.

Pursuant to Statement of Financial Accounting Standards Board Accounting Standards Codification 840-20, *Operating Leases*, lease revenue is recognized on a straight-line basis over the lease term. Rental payments are due at the beginning of each month in advance.

2. Summary of significant accounting policies (continued)

Income taxes
The Organization is exempt from federal income taxes under IRC Section 501(c)(3) and from California income and franchise taxes under Revenue and Taxation Code Section 23701(d).

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and has measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Grant expense
Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. Grant refunds are recorded as a reduction of grant expense at the time the Organization receives or is notified of the refund.

Functional allocation of expenses
Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by the Organization's management.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

Subsequent events
Subsequent events have been evaluated through December 26, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Restricted cash includes reserve accounts established for debt service, capital replacements, and construction. The Organization's restricted cash balance as of June 30, 2018 and 2017 was comprised of the following:

	2018	2017
NCCLF reserve	$ 256,009	$ 319,668
Capital replacements	25,155	13,545
Construction reserve	-	681,467
Restricted cash	$ 281,164	$ 1,014,680

4. Short term loans

The Organization obtained unsecured loans from the board of directors and community members. These loans bear no interest. Management has evaluated the donative component of these loans and has determined donated amounts are not material for financial statement presentation. These loans are due on demand. As of June 30, 2018 and 2017, short term loans consisted of $5,000 for both years.

5. Note receivable

Bay Area Legal Aid

Pursuant to Exhibit F of the Office Lease Agreement effective March 30, 2016, the Organization made a loan to Bay Area Legal Aid ("BALA") in the principal amount of $400,000 (the "BALA Loan"). BALA agreed to repay the principal amount plus interest per annum equal to 2.5% on the unpaid principal balance from April 14, 2016 to April 13, 2023. Interest and principal shall be paid in equal quarterly installments sufficient to fully amortize the BALA Loan and all accrued but unpaid interest over such period. The loan is unsecured.

As of June 30, 2018 and 2017, note receivable was $278,605 and $333,250, respectively. As of June 30, 2018 and 2017, there was no interest receivable for both years.

6. Notes payable

Allison J. Sparks Living Trust

Allison Loan

Pursuant to the Loan Agreement dated January 31, 2017, the Organization secured a note from Allison J. Sparks Living Trust in the amount of $200,000 ("Allison Loan"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 5.85% per annum. Commencing on November 1, 2017 and through and including May 31, 2018, unpaid principal and accrued interest shall be due and payable in the amount of $50,000 on June 30, 2017, $50,000 on December 7, 2017, $55,000 on February 28, 2018, and $55,473 on May 31, 2018. This loan is unsecured. During 2018, the principal balance was fully repaid.

6. Notes payable (continued)

COCRF Sub-CDE 35, LLC

COCRF Note A
Pursuant to Promissory Note A dated April 13, 2016, the Organization secured a note from COCRF Sub-CDE 35, LLC ("COCRF") in the amount of $1,830,000 ("COCRF Note A"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 2.8633% per annum. Commencing April 13, 2016 and through and including September 1, 2024, accrued interest on the outstanding principal balance shall be due and payable in quarterly installments partially in arrears, partially in advance on the first day of each March, June, September, and December (the "Payment Dates"). On April 13, 2023, a payment of principal in the amount of $993,244 shall be due and payable. Commencing on December 1, 2024 and until April 13, 2048 (the "Maturity Date"), interest and principal in an amount sufficient to fully amortize COCRF Note A upon the Maturity Date shall be payable in quarterly installments on the Payment Dates. This note is secured by the Land, Improvements, Collateral Documents, and the Deed of Trust (collectively, the "Collateral"), as defined in the Loan Agreement dated April 13, 2016 (the "Loan Agreement").

COCRF Note B
Pursuant to Promissory Note B dated April 13, 2016, the Organization secured a note from COCRF in the amount of $1,170,000 ("COCRF Note B")(COCRF Note A and COCRF Note B are collectively, the "COCRF Notes"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 2.8633% per annum. Commencing April 13, 2016 and through and including September 1, 2024, accrued interest on the outstanding principal balance shall be due and payable in quarterly installments partially in arrears, partially in advance on the Payment Dates. Commencing on December 1, 2024 and until the Maturity Date, interest and principal in an amount sufficient to fully amortize COCRF Note B upon the Maturity Date shall be payable in quarterly installments on the Payment Dates. This note is secured by the Collateral.

NCCLF NMTC Sub-CDE 16, LLC

NCCLF Note A
Pursuant to Promissory Note A dated April 13, 2016, the Organization secured a note from NCCLF NMTC Sub-CDE 16, LLC ("NCCLF") in the amount of $4,562,800 ("NCCLF Note A"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 2.8633% per annum. Commencing April 13, 2016 and through and including September 1, 2024, accrued interest on the outstanding principal balance shall be due and payable in quarterly installments partially in arrears, partially in advance on the Payment Dates. On April 13, 2023, a payment of principal in the amount of $2,476,488 shall be due and payable. Commencing on December 1, 2024 and until the Maturity Date, interest and principal in an amount sufficient to fully amortize NCCLF Note A upon the Maturity Date shall be payable in quarterly installments on the Payment Dates. This note is secured by the Collateral.

6. Notes payable (continued)

NCCLF NMTC Sub-CDE 16, LLC (continued)

NCCLF Note B
Pursuant to Promissory Note B dated April 13, 2016, the Organization secured a note from NCCLF in the amount of $2,692,800 ("NCCLF Note B") (NCCLF Note A and NCCLF Loan B are collectively, the "NCCLF Notes"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 2.8633% per annum. Commencing April 13, 2016 and through and including September 1, 2024, accrued interest on the outstanding principal balance shall be due and payable in quarterly installments partially in arrears, partially in advance on the Payment Dates. Commencing on December 1, 2024 and until the Maturity Date, interest and principal in an amount sufficient to fully amortize NCCLF Note B upon the Maturity Date shall be payable in quarterly installments on the Payment Dates. This note is secured by the Collateral.

Capital One, National Association

Capital One Loan
Pursuant to Promissory Note A dated April 13, 2016, the Organization secured a note from Capital One, National Association ("Capital One") in the amount of $163,087 ("Capital One Loan"). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 2.50% per annum. Commencing June 1, 2016 and through and including March 1, 2023, quarterly payments of principal and interest in the amount of $1,942.46 shall be due and payable on the Payment Dates. The remaining principal balance and all accrued and unpaid interest shall be due and payable on April 13, 2023. This note is secured by the Collateral.

As of June 30, 2018 and 2017, notes payable were as follows:

	2018	2017
Allison Loan	$ -	$ 154,322
COCRF Notes	3,000,000	3,000,000
NCCLF Notes	7,255,600	7,255,600
Capital One Loan	154,192	157,993
Total notes payable	10,409,792	10,567,915
Less: unamortized debt issuance costs	(425,348)	(463,784)
Notes payable, net	$ 9,984,444	$ 10,104,131

As of June 30, 2018 and 2017, there was no accrued interest for both years.

6. Notes payable (continued)

For the years ended June 30, 2018 and 2017, the effective interest rate were as follows:

	2018	2017
COCRF Note A	3.18%	3.18%
COCRF Note B	3.07%	3.07%
NCCLF Note A	3.18%	3.18%
NCCLF Note B	3.07%	3.07%

For the years ended June 30, 2018 and 2017, debt issuance costs amortized into interest expense was $38,436 and $12,693, respectively.

Future minimum principal payment requirements over the next five years are as follows:

Year ending June 30,

2019	$ 12,126
2020	3,978
2021	4,090
2022	4,195
2023	129,803
Thereafter	10,255,600
Total	$ 10,409,792

7. Temporarily restricted net assets

Temporarily restricted net assets consist of the following as of June 30, 2018 and 2017:

	2018	2017
LGBT Youth Services	$ -	$ 7,448
Employment Services	21,146	33,023
Economic Development	-	4,861
Total temporarily restricted net assets	$ 21,146	$ 45,332

8. Grants

The Organization anticipates collection of outstanding grants receivables as follows as of June 30, 2018 and 2017:

Total amounts due in:	2018	2017
One Year	$ 360,271	$ 157,452
Two to Five Years	-	-
More than Five Years	-	-
Grants receivable	$ 360,271	$ 157,452

9. Leases

Equipment lease
The Organization leases digital copiers under an equipment lease agreement with Pacific Office Automation through August 2019. For the years ended June 30, 2018 and 2017, the Organization incurred lease expense of $19,445 and $22,832, respectively. As of June 30, 2018 and 2017, no amounts were owed to Pacific Office Automation for both years.

Future minimum operating lease payments are as follows:

Year ending June 30,

2019	$	16,788
2020		1,399
Total	$	18,187

Office rental leases

Aguilas
Pursuant to the Office Lease between the Organization and Aguilas ("Aguilas"), a California non-profit corporation, dated April 16, 2012 (the "Aguilas Lease 1"), the Organization leased to Augilas office space located at 1800 Market Street in San Francisco, California. The monthly rent is $2,214, payable monthly in advance on the first day of each month in equal monthly installments. This is a month to month lease. The Aguilas Lease 1 terminated on October 31, 2016.

Pursuant to the Office Lease between the Organization and Aguilas dated December 1, 2015 (the "Aguilas Lease 2") (the Aguilas Lease 1 and Aguilas Lease 2 are collectively, the "Aguilas Leases"), the Organization continues to lease to Aguilas office space located at 1800 Market Street in San Francisco, California. The Aguilas Lease 2 commenced on November 1, 2016 (the "Aguilas Commencement Date") and expires on December 1, 2020. The monthly base rent is $3,060 payable in advance on or before the first day of each successive calendar month. On each anniversary of the Aguilas Commencement Date, the base rent will increase by the lesser of the Bay Area consumer price index ("CPI") or 2%.

Asian and Pacific Islander Wellness Center, Inc.
Pursuant to the Office Lease between the Organization and Asian and Pacific Islander Wellness Center, Inc. ("API"), a California profit corporation, dated February 1, 2016 (the "API Lease"), the Organization leased to API office space located at 1800 Market Street in San Francisco, California. The API Lease commenced on November 28, 2016 (the "API Commencement Date") and expires on November 28, 2021. The monthly base rent is $6,735 payable in advance on or before the first day of each successive calendar month. On each anniversary of the API Commencement Date, the base rent will increase by the lesser of the Bay Area CPI or 2%.

9. Leases (continued)

Office rental leases (continued)

Bay Area Legal Aid
Pursuant to the Office Lease between the Organization and BALA dated March 30, 2016 (the "BALA Lease 1"), the Organization leased to BALA office space located at 1800 Market Street in San Francisco, California. The BALA Lease 1 commenced on November 18, 2016 (the "BALA Commencement Date") and expires on November 18, 2026. The monthly base rent is $30,882 payable in advance on or before the first day of each successive calendar month. On each anniversary of the BALA Commencement Date, the base rent will increase by the lesser of the Bay Area CPI or 3%.

Pursuant to the Office Lease between the Organization and BALA dated October 31, 2016 (the "BALA Lease 2") (the BALA Lease 1 and BALA lease 2 are collectively, the "BALA Leases"), the Organization leased to BALA additional office space located at 1800 Market Street in San Francisco, California. The BALA Lease 2 commenced on January 1, 2017 (the "BALA 2 Commencement Date") and expires on December 31, 2023. The monthly base rent is $6,498 payable in advance on or before the first day of each successive calendar month. On each anniversary of the BALA 2 Commencement Date, the base rent will increase by the greater of the Bay Area CPI or 3%.

City and County of San Francisco
Pursuant to the Office Lease between the Organization and the City and County of San Francisco ("SF") dated February 14, 2017 (the "SF Lease"), the Organization leased to SF office space located at 1800 Market Street in San Francisco, California. The SF Lease commenced on March 1, 2017 (the SF Commencement Date") and expires on February 28, 2018. The monthly base rent is $6,051, payable in advance on or before the first day of each successive calendar month. SF agreed to extend the term of the SF Lease for an additional year, commencing on March 1, 2018 and expiring on February 28, 2019. The lease term shall not extend beyond the fourth anniversary of the SF commencement Date. On the anniversary of each extension of the SF Commencement Date, the base rent will increase by 3%.

For the years ended June 30, 2018 and 2017, rental income, included in "Facility rental" of the statement of activities and changes in net assets, was as follows:

	2018	2017
Aguilas Leases	$ 37,210	$ 34,123
API Lease	81,763	47,819
BALA Leases	456,403	260,886
SF Lease	73,333	24,202
Total	$ 648,709	$ 367,030

As of June 30, 2018 and 2017, rent receivable, which is included in "Accounts receivables, net" of the statements of financial position for the API Lease was $898 and $8,193, respectively.

9. Leases (continued)

Office rental leases (continued)

As of June 30, 2018 and 2017, prepaid rent, included in "Unearned revenue" of the statement of financial position, was as follows:

	2018	2017
Aguilas Leases	$ -	$ 3,256
BALA Leases	-	15,617
SF Lease	-	6,050
Total	$ -	$ 24,923

10. New markets tax credits

On April 13, 2016, the Organization secured loans from COCRF and NCCLF (collectively, the "NMTC Lenders"). As a result of making the loans, the NMTC Lenders are eligible for federal income tax credits under the NMTC program implemented by Congress in December 2000.

Pursuant to the QALICB Indemnification Agreement dated April 13, 2016 (the "Indemnification Agreement"), in the occurrence of an event or condition that results in a recapture of all or any portion of NMTCs ("Recapture Event"), the Organization and SF LGBT Center Capital Fund, a California nonprofit public benefit corporation (collectively the "Indemnitors"), shall pay the NMTC Recapture Amount, as defined in the Indemnification Agreement, to Capital One, but only if and to the extent that such Recapture Event is the result of:

i. The Organization failing, in whole or in part, to qualify as a QALICB;
ii. The Organization's violation of any representation, warranty or covenant in the loan agreements with the NMTC Lenders;
iii. Any fraud, material misrepresentation, gross negligence, or willful misconduct of any Indemnitor or affiliates; or
iv. An Event of Default, as defined in the loan agreements with the NMTC Lenders, of any Indemnitor or affiliates.

As of June 30, 2018 and 2017, no claims or payments had been made relative to the indemnity and the Organization is not aware of the occurrence of any recapture event. The Organization has determined the likelihood of a recapture event to be remote after considering the historical rate of recapture and related factors. Accordingly, no liability has been recorded relative to the indemnity.

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Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
San Francisco Lesbian Gay Bisexual Transgender Community Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Francisco Lesbian Gay Bisexual Transgender Community Center (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

Long Beach, California
December 26, 2018