

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION
FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015
with
Report of Independent Auditors

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6-7
NOTES TO FINANCIAL STATEMENTS	8-20
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STANDARDS PERFORMED IN ACCORANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21-22



Report of Independent Auditors

To the Board of Directors of
San Francisco Lesbian Gay Bisexual Transgender Community Center,
a California nonprofit public benefit corporation:

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, 2016 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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, a California nonprofit public benefit corporation, as of June 30, 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.

Prior Period Financial Statements

The financial statements of San Francisco Lesbian Gay Bisexual Transgender Community Center as of June 30, 2015, were audited by other auditors whose report dated April 7, 2016, expressed an unmodified opinion on those statements.

Novogradac & Company LLP

Long Beach, California
May 18, 2017

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 877,297	\$ 240,943
Accounts receivable, net	19,376	12,679
Grants and pledges receivable	508,839	153,826
Prepaid expenses	10,979	12,840
Note receivable - current portion (Note 6)	38,563	-
Total current assets	<u>1,455,054</u>	<u>420,288</u>
Noncurrent assets		
Restricted cash (Note 3)	5,509,757	-
Note receivable (Note 6)	361,437	-
Fixed assets, net (Note 2)	10,157,667	8,818,970
Deferred charges, net (Note 2)	42,517	-
Artwork and other assets	15,000	15,000
Total noncurrent assets	<u>16,086,378</u>	<u>8,833,970</u>
Total assets	<u><u>\$ 17,541,432</u></u>	<u><u>\$ 9,254,258</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,113,171	\$ 234,647
Deposits and funds held for others	574,765	24,415
Conditional grants (Note 4)	-	8,151
Short term loans (Note 5)	5,000	14,000
Notes payable - current portion (Note 7)	3,745	2,929,232
Total current liabilities	<u>1,696,681</u>	<u>3,210,445</u>
Noncurrent liabilities		
Notes payable, net (Note 7)	9,909,362	141,959
Total noncurrent liabilities	<u>9,909,362</u>	<u>141,959</u>
Total liabilities	11,606,043	3,352,404
Net assets		
Unrestricted		
Board designated reserve	35,000	35,000
Undesignated	5,867,654	5,801,921
Total unrestricted	<u>5,902,654</u>	<u>5,836,921</u>
Temporarily restricted (Note 8)	32,735	64,933
Total net assets	<u>5,935,389</u>	<u>5,901,854</u>
Total liabilities and net assets	<u><u>\$ 17,541,432</u></u>	<u><u>\$ 9,254,258</u></u>

see accompanying notes

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			2016	2015
PUBLIC SUPPORT AND OTHER REVENUE				
Public support:				
Government grants	\$ 2,646,488	\$ -	\$ 2,646,488	\$ 1,335,954
Donations	467,553	867	468,420	308,848
Foundation and corporate	347,507	94,600	442,107	332,429
Fundraising events	77,222	-	77,222	210,271
In-kind support	-	-	-	27,905
Total public support	<u>3,538,770</u>	<u>95,467</u>	<u>3,634,237</u>	<u>2,215,407</u>
Other revenues:				
Facility rental	150,737	-	150,737	227,912
Program revenue	93,931	1,650	95,581	121,871
Interest	-	-	-	26
Miscellaneous	-	-	-	1,504
Total other revenues	<u>244,668</u>	<u>1,650</u>	<u>246,318</u>	<u>351,313</u>
Net assets released from temporary donor restriction	<u>129,315</u>	<u>(129,315)</u>	<u>-</u>	<u>-</u>
Total public support and other revenues	3,912,753	(32,198)	3,880,555	2,566,720
EXPENDITURES				
Program services	2,900,212	-	2,900,212	1,810,571
Management and general	174,578	-	174,578	135,429
Fundraising	418,712	-	418,712	355,462
Total expenditures	<u>3,493,502</u>	<u>-</u>	<u>3,493,502</u>	<u>2,301,462</u>
Change in net assets before depreciation	419,251	(32,198)	387,053	265,258
Depreciation expense	<u>353,518</u>	<u>-</u>	<u>353,518</u>	<u>364,119</u>
Change in net assets	65,733	(32,198)	33,535	(98,861)
NET ASSETS AT BEGINNING OF YEAR	<u>5,836,921</u>	<u>64,933</u>	<u>5,901,854</u>	<u>6,000,715</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,902,654</u>	<u>\$ 32,735</u>	<u>\$ 5,935,389</u>	<u>\$ 5,901,854</u>

see accompanying notes

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2016 and 2015

EXPENSES	Program Services			Support Services		Total	
	Economic Development	Community Program	Facilities and Building	Management and General	Fundraising	2016	2015
Salaries	\$ 398,226	\$ 271,064	\$ 232,472	\$ 113,621	\$ 218,540	\$ 1,233,923	\$ 1,210,978
Employee benefits	34,849	23,405	35,257	2,843	16,187	112,541	112,608
Payroll taxes	34,253	23,174	20,083	8,659	18,477	104,646	108,089
Total personnel	467,328	317,643	287,812	125,123	253,204	1,451,110	1,431,675
Grant expenses	-	-	1,211,181	-	-	1,211,181	-
Professional services	113,006	77,535	3,300	-	25,787	219,628	234,860
Dues, service fees, and insurance	901	197	756	3,356	451	5,661	29,264
Program supplies and materials	13,432	41,198	8,580	-	-	63,210	112,152
Interest	-	-	122,241	2,296	-	124,537	151,163
Equipment rental	14,932	10,098	5,715	858	3,235	34,838	90,467
Dues, service fees, and other	-	-	-	-	-	-	24,877
Conferences and meetings	1,715	4,084	-	-	675	6,474	1,767
Direct mail and donor cultivation	-	-	-	-	108,264	108,264	54,554
Occupancy	-	940	122,286	-	13,855	137,081	112,964
Office expense	19,158	18,251	14,245	42,945	12,911	107,510	45,310
Travel and meals	1,771	2,053	524	-	330	4,678	12,409
Organizational cost	-	-	19,330	-	-	19,330	-
Total expenses	\$ 632,243	\$ 471,999	\$ 1,795,970	\$ 174,578	\$ 418,712	\$ 3,493,502	\$ 2,301,462

see accompanying notes

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 33,535	\$ (98,861)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	353,518	364,119
Donated items	-	(27,905)
Changes in assets and liabilities:		
Increase in accounts receivable	(6,697)	(3,512)
(Increase) decrease in grants and pledges receivable	(355,013)	35,463
Decrease (increase) in prepaid expenses	1,861	(829)
Increase in accounts payable and accrued expenses	6,500	51,185
Increase in deposits and funds held for others	550,350	10,487
Decrease in conditional grants	(8,151)	(5,849)
Decrease in deferred revenue	-	(22,652)
Net cash provided by operating activities	575,903	301,646
 CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	(5,509,757)	-
Increase in note receivable	(400,000)	-
Purchase of fixed assets	(820,191)	(18,172)
Increase in deferred charges	(42,517)	-
Decrease in artwork and other assets	-	350
Net cash used in investing activities	(6,772,465)	(17,822)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short term borrowing	(9,000)	(31,000)
Proceeds from notes payable	10,417,299	-
Repayments of notes payable	(3,071,191)	(78,750)
Cost of issuance for notes payable	(504,192)	-
Net cash provided by (used in) financing activities	6,832,916	(109,750)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	636,354	174,074
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	240,943	66,869
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 877,297	\$ 240,943

see accompanying notes

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u>\$ 124,537</u>	<u>\$ 151,163</u>
Cash paid for interest capitalized into fixed assets	<u>\$ 65,222</u>	<u>\$ -</u>

NONCASH TRANSACTION FROM INVESTING AND FINANCING ACTIVITIES

Disposal of fixed assets	<u>\$ 189,567</u>	<u>\$ -</u>
Decrease in accumulated depreciation from disposal of fixed assets	<u>\$ 189,567</u>	<u>\$ -</u>
Increase in construction in progress due to accounts payable	<u>\$ 872,024</u>	<u>\$ -</u>

see accompanying notes

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 2002 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 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. Additional programs include:
 - i. **Transitional Age Youth** who are primarily homeless receive leadership development, job training, and or free meals.
 - 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. **Building Facilities** Our solar powered state-of-the-art facility is open six days a week. We provide office and program space for non-profit organizations and host events each month 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. The three classes are differentiated by donor restrictions.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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. As of June 30, 2016 and 2015, temporarily restricted net assets was \$32,735 and \$64,933, respectively.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations whereby the resources are to be preserved in perpetuity. As of June 30, 2016 and 2015, there was no permanently restricted net assets.

Use of 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 economic or other conditions in that geographical 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 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.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

2. Summary of significant accounting policies (continued)

Accounts receivable

Accounts receivable is 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, 2016 and 2015, the balance of the allowance for doubtful accounts was \$2,350 and \$0, respectively.

Loans receivable and allowance for loan losses

Loans receivable are stated at unpaid principal balances, less an allowance for loan losses.

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, 2016 and 2015.

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 and still accruing interest as of June 30, 2016 and 2015.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

2. Summary of significant accounting policies (continued)

Loans 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.

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. 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, 2016 and 2015, fixed assets consist of:

	2016	2015
Land	\$ 220,000	\$ 220,000
Building and improvements	13,210,713	13,210,713
Furniture and equipment	309,028	363,998
Computer and software	144,305	278,902
Construction in progress	1,710,388	18,173
Less: accumulated depreciation	(5,436,767)	(5,272,816)
Fixed assets, net	\$ 10,157,667	\$ 8,818,970

Deferred charges and amortization

Deferred charges are recorded at cost and amortized ratably over the expected lease period of 120 months using the straight-line method. As of June 30, 2016 and 2015, deferred charges consist of:

	2016	2015
Lease costs	\$ 42,517	\$ -
Less: accumulated amortization	-	-
Deferred charges, net	\$ 42,517	\$ -

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 flow 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 flows analysis, or other valuation technique. There were no impairment losses recognized as of June 30, 2016 and 2015.

Funds held for others

As of June 30, 2016 and 2015, the Organization is holding funds for tenants in the amount of \$534,934 and \$0, respectively. The funds will be applied towards tenant improvements.

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.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

2. Summary of significant accounting policies (continued)

Income taxes

The Organization is exempt from federal income taxes under Internal Revenue Code 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 the current year presentation.

3. Restricted cash

Restricted cash includes reserve accounts established for debt service and construction. The Organization's restricted cash balance as of June 30, 2016 and 2015 was comprised of the following:

	<u>2016</u>	<u>2015</u>
NCCLF reserve	\$ 370,668	\$ -
Construction reserve	<u>5,139,089</u>	<u>-</u>
Restricted cash	<u>\$ 5,509,757</u>	<u>\$ -</u>

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

4. Conditional grants

The Organization was the recipient of grants conditioned on certain operating results of the Organization or donor waiver. As of June 30, 2016 and 2015, the remaining balance of such conditional grants was \$0 and \$8,151, respectively.

5. 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, 2016 and 2015, short term loans consisted of \$5,000 and \$14,000, respectively.

6. 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 installment sufficient to fully amortize the BALA Loan and all accrued but unpaid interest over such period. The loan is unsecured.

As of June 30, 2016, note receivable was \$400,000 and there was no interest receivable.

7. Notes payable

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. Interest shall be computed on a basis of a 360-day year for the actual number of days elapsed. 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”).

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

7. Notes payable (continued)

COCRF Sub-CDE 35, LLC (continued)

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. Interest shall be computed on a basis of a 360-day year for the actual number of days elapsed. 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. Interest shall be computed on a basis of a 360-day year for the actual number of days elapsed. 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.

NCCLF Note B

Pursuant to Promissory Note B dated April 13, 2016, the Organization secured a note from COCRF 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. Interest shall be computed on a basis of a 360-day year for the actual number of days elapsed. 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.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

7. Notes payable (continued)

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. Interest shall be computed on a basis of a 360-day year for the actual number of days elapsed. 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.

Bank of America, N.A

Bank of America Loan

Pursuant to the Modification Agreement dated January 27, 2012, the Organization secured a note from Bank of America, N.A. (“BofA”) in the amount of \$3,200,000 (“BofA Loan”). Interest on the outstanding principal balance shall accrue and be payable at a rate which is equal to 5.00% per annum. The Organization shall make three principal payments of \$78,750 on July 1, 2012, July 1, 2013, and July 1, 2014. The remaining principal balance and all accrued and unpaid interest shall be due and payable on June 30, 2015. This note was fully repaid on April 13, 2016. This note was secured by the deed of trust that encumbers the property commonly known as 1800 Market Street, San Francisco, CA.

City and County of San Francisco

SF Loan

Pursuant to the Secured Promissory Note dated January 27, 2012 (the “SF Promissory Note”), the Organization secured a note from City and County of San Francisco (“SF”) in the amount of \$157,500 (“SF Loan”). Interest on the outstanding principal balance shall accrue at a variable rate which is equal to amount earned on the Pooled Investment Fund, as defined in the SF Promissory Note. Principal and interest will be payable in equal monthly installments on the first day of each calendar month each in an amount necessary to repay all principal and interest over a five (5) year amortization schedule, commencing on January 1, 2016, and continuing until December 31, 2020. This note was fully repaid on April 13, 2016. This note was secured by the deed of trust that encumbers the property commonly known as 1800 Market Street, San Francisco, CA.

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

7. Notes payable (continued)

As of June 30, 2016 and 2015, there was no interest payable. As of June 30, 2016 and 2015, notes payable were as follows:

	<u>2016</u>	<u>2015</u>
COCRF Notes	\$ 3,000,000	\$ -
NCCLF Notes	7,255,600	-
Capital One Loan	161,699	-
BofA Loan	-	2,913,691
SF Loan	-	<u>157,500</u>
Total notes payable	10,417,299	3,071,191
Less: unamortized debt issuance costs	<u>(504,192)</u>	-
Notes payable, net	<u>\$ 9,913,107</u>	<u>\$ 3,071,191</u>

Debt issuance costs were paid in 2016 and are being amortized to interest expense over the term of the loan. For the year ended June 30, 2016, the effective interest rate was 3.14%. During 2016, there was no amortization expense for debt issuance costs.

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

Year ending June 30,	
2017	\$ 3,745
2018	3,840
2019	3,939
2020	4,029
2021	4,143
Thereafter	<u>10,397,603</u>
Total	<u>\$ 10,417,299</u>

8. Temporarily restricted net assets

Temporarily restricted net assets consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
LGBT youth services	\$ 12,635	\$ -
Community development/immigration	20,100	6,103
Capacity building	-	42,500
Homeowner and financial services	-	15,632
Sponsored projects:		
Bay area lawyers for individual freedom	-	512
Atomosqueers	-	<u>186</u>
Total temporarily restricted net assets	<u>\$ 32,735</u>	<u>\$ 64,933</u>

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016 and 2015

9. Grants

City and County of San Francisco

Pursuant to the various grant agreements between the Organization and SF, the Organization is to receive grants for various programs. The purpose of the grants include supporting the Organization with general operating expenses, education workshops, special events, and providing public community services to the LGBT community. SF will distribute the grant amounts for eligible costs incurred by the Organization on a cost-reimbursement basis, in which the Organization shall submit disbursement request to the SF, no more frequently than once per month. Any funds not expended for eligible costs on or before the expiration of the grant terms shall be immediately returned to SF. The terms of these grants range from July 1, 2015 to June 30, 2017.

For the years ended June 30, 2016 and 2015, the Organization earned \$2,646,488 and \$1,335,954, respectively. As of June 30, 2016 and 2015, grants receivable was \$478,369 and \$106,326, respectively, which is included in “Grants and pledges receivable” on the statement of financial position.

10. Leases

Equipment lease

The Organization leases digital copiers under equipment lease agreement with Pacific Office Automation through August 2019. For the years ended June 30, 2016 and 2015, Pacific Office Automation earned \$20,153 and \$32,524, respectively. As of June 30, 2016 and 2015, no amounts were owed to Pacific Office Automation.

Future minimum operating lease payments are as follows for the years ending June 30,

2017	\$	16,788
2018		16,788
2019		16,788
2020		<u>1,399</u>
Total	\$	<u>51,763</u>

Office rental leases

Aguilas

Pursuant to the Office Lease between the Organization and Aguilas, a California non-profit corporation, dated April 16, 2012 (the “Aguilas Lease”), the Organization will lease 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 SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

10. Leases (continued)

Office rental leases (continued)

Openhouse

Pursuant to the Office Lease between the Organization and Openhouse, a California non-profit corporation, dated September 28, 2012 (the "Openhouse Lease"), the Organization will lease to Openhouse office space located at 1800 Market Street in San Francisco, California. The monthly rent is \$3,333, payable monthly in advance on the first day of each month in equal monthly installments. This is a month to month lease.

Pursuant to the Office Lease between the Organization and Openhouse dated July 1, 2014 (the "Openhouse Lease 2"), the Organization will lease to Openhouse additional office space located at 1800 Market Street in San Francisco, California. The monthly rent is \$950, payable monthly in advance on the first day of each month in equal monthly installments. This is a month to month lease.

For the years ended June 30, 2016 and 2015, the Organization earned \$76,651 and \$111,905, respectively. As of June 30, 2016 and 2015, no amounts were owed to the Organization.

11. 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

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

12. Subsequent events

Subsequent events have been evaluated through May 18, 2017, which is the date the financial statements were available to be issued. The following is a summary of the subsequent events:

Pursuant of the Office Lease Agreement between the Organization and Aguilas dated December 1, 2016 (“Aguilas Lease 2”), Aguilas will lease office space from the Organization for a base rent of \$3,060 per month, increasing each anniversary of the commencement date start by the lesser of the Bay Area CPI or 2%.

Pursuant to the Verification Memorandum dated November 1, 2016, Aguilas Lease 2 commenced on November 1, 2016.

Pursuant of the Office Lease Agreement between the Organization and BALA dated March 30, 2016 (“BALA Lease 1”), BALA will lease office space from the Organization for a base rent of \$30,882 per month, increasing each anniversary of the commencement date start by the lesser of the Bay Area CPI or 3%. Pursuant to the Verification Memorandum dated November 18, 2016, BALA Lease 1 commenced on November 1, 2016.

Pursuant to the Office Lease Agreement between the Organization and Asian and Pacific Islander Wellness Center Inc. (“API Wellness”) dated February 1, 2016 (“API Lease”), API Wellness will lease office from the Organization for an initial base rent of \$6,735 per month, increasing each anniversary of the commencement date start by the lesser of the Bay Area CPI or 2%. Pursuant to the Verification Memorandum dated November 28, 2016, the API Lease commenced November 28, 2016.

Pursuant of the Office Lease Agreement between the Organization and BALA dated October 31, 2016 (“BALA Lease 2”), BALA will lease office space from the Organization for a base rent of \$6,498 per month, increasing each anniversary of the commencement date start by the greater of the Bay Area CPI or 3%.

Pursuant to the Verification Memorandum dated October 31, 2016, BALA Lease 2 commenced January 1, 2017.

Pursuant to the Office Lease between the Organization and SF dated February 14, 2017 (the “SF Lease”), SF will lease office space from the Organization for an annual base rent of \$72,606.84.

Per review of the Notice of Commencement Date dated March 2, 2017, the SF Lease commenced March 1, 2017.



**NOVOGRADAC
& COMPANY** LLP®
CERTIFIED PUBLIC ACCOUNTANTS

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
a California nonprofit public benefit corporation:

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, which comprise the statement of financial position as of June 30, 2016, 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 May 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Francisco Lesbian Gay Bisexual Transgender Community Center'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 San Francisco Lesbian Gay Bisexual Transgender Community Center'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Francisco Lesbian Gay Bisexual Transgender Community Center'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.

Novogrodac & Company LLP

Long Beach, California
May 18, 2017