



EQUALITY CALIFORNIA

**FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**



CONTENTS

<i>As of and for the years ended December 31, 2016 and 2015</i>	Page
Independent auditor's report	1 – 2
Financial statements:	
Statements of financial position as of December 31, 2016 and 2015	3
Statements of activities for the years ended December 31, 2016 and 2015	4 - 5
Statements of functional expenses for the years ended December 31, 2016 and 2015	6
Statements of cash flows for the years ended December 31, 2016 and 2015	7
Notes to financial statements	8 – 13

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Equality California
Los Angeles, California

We have audited the accompanying financial statements of Equality California (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT
(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Equality California as of December 31, 2016 and 2015, 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.

Rossi LLP

Long Beach, California
November 15, 2017

EQUALITY CALIFORNIA
STATEMENTS OF FINANCIAL POSITION

<i>As of December 31,</i>	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 73,980	\$ 31,712
Pledges receivable	2,500	17,451
Due from Equality California Institute	627,451	519,435
Prepaid expenses and other current assets	24,740	24,890
Total current assets	728,671	593,488
Long-term assets:		
Property and equipment, net	7,515	9,930
Total assets	\$ 736,186	\$ 603,418
LIABILITIES AND NET ASSETS		
Current liabilities:		
Capital lease obligation	\$ -	\$ 5,942
Accounts payable	42,101	42,593
Accrued expenses and other current liabilities	44,062	26,399
Total current liabilities	86,163	74,934
Net assets:		
Unrestricted	609,559	497,494
Temporarily restricted	40,464	30,990
Total net assets	650,023	528,484
Total liabilities and net assets	\$ 736,186	\$ 603,418

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA
STATEMENTS OF ACTIVITIES

For the year ended December 31, 2016

	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Individual and other contributions	\$ 233,266	\$ 135,000	\$ 368,266
Grants from Equality California Institute	255,000	-	255,000
In-kind donations	167,360	54,720	222,080
Special events, net of \$410,455 of direct costs	500,611	-	500,611
Total public support	1,156,237	189,720	1,345,957
Net assets released from restriction:			
Satisfaction of purpose / time restrictions	180,246	(180,246)	-
Total public support and revenue	1,336,483	9,474	1,345,957
Expenses:			
Program services	686,823	-	686,823
Management and general	233,797	-	233,797
Fundraising	303,798	-	303,798
Total expenses	1,224,418	-	1,224,418
Change in net assets	112,065	9,474	121,539
Net assets, beginning of year	497,494	30,990	528,484
Net assets, end of year	\$ 609,559	\$ 40,464	\$ 650,023

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA
STATEMENTS OF ACTIVITIES - CONTINUED

For the year ended December 31, 2015

	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Individual and other contributions	\$ 518,649	\$ 2,377	\$ 521,026
Grants from Equality California Institute	199,000	-	199,000
In-kind donations	137,713	25,000	162,713
Special events, net of \$402,288 of direct costs	568,994	-	568,994
Total public support	1,424,356	27,377	1,451,733
Net assets released from restriction:			
Satisfaction of purpose / time restrictions	21,143	(21,143)	-
Total public support and revenue	1,445,499	6,234	1,451,733
Expenses:			
Program services	984,068	-	984,068
Management and general	224,879	-	224,879
Fundraising	368,224	-	368,224
Total expenses	1,577,171	-	1,577,171
Change in net assets	(131,672)	6,234	(125,438)
Net assets, beginning of year as previously reported	536,325	24,756	561,081
Prior period adjustment - to correct for overstated accounts payable	92,841	-	92,841
Net assets, beginning of year as restated	629,166	24,756	653,922
Net assets, end of year	\$ 497,494	\$ 30,990	\$ 528,484

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA
STATEMENTS OF FUNCTIONAL EXPENSES

	2016				2015			
	Program services	Management and general	Fundraising	Total expenses	Program services	Management and general	Fundraising	Total expenses
Salaries	\$ 179,340	\$ 117,958	\$ 183,691	\$ 480,989	\$ 533,136	\$ 109,069	\$ 208,652	\$ 850,857
Professional and outside services	178,429	10,437	4,116	192,982	100,028	565	26,605	127,198
Printing and production	120,759	70	8,986	129,815	2,664	1,213	15,393	19,270
Legal	85,000	-	-	85,000	75,913	-	-	75,913
Travel and entertainment	24,136	9,536	31,130	64,802	28,001	4,973	23,805	56,779
Payroll taxes	13,797	11,207	19,152	44,156	48,119	15,011	22,160	85,290
Rent - building and equipment	11,678	5,944	15,024	32,646	36,851	13,122	16,938	66,911
Employee benefits	11,735	5,759	15,063	32,557	22,814	5,751	10,576	39,141
Accounting and audit	-	32,159	-	32,159	-	28,024	-	28,024
Office expenses and supplies	7,421	14,678	7,999	30,098	46,068	15,971	23,725	85,764
Communications	21,569	-	-	21,569	32,594	1,055	2,455	36,104
Bank charges and merchant fees	4,994	4,180	5,928	15,102	17,207	4,237	7,532	28,976
Taxes and licenses	-	10,646	425	11,071	111	3,644	36	3,791
Postage and shipping	9,572	505	743	10,820	1,686	293	805	2,784
Polling and research	9,790	-	-	9,790	32	-	-	32
Insurance	3,003	-	5,172	8,175	12,149	1,765	4,698	18,612
Dues and subscriptions	2,217	1,336	2,322	5,875	2,974	4,208	3,766	10,948
Miscellaneous	-	3,774	1,800	5,574	15,267	8,837	136	24,240
Recruitment and training	1,135	2,212	858	4,205	466	2,606	203	3,275
Repairs and maintenance	563	575	1,389	2,527	1,572	1,340	739	3,651
Depreciation and amortization	-	2,415	-	2,415	-	2,144	-	2,144
Conferences and meetings	1,685	-	-	1,685	6,416	-	-	6,416
Interest expense	-	406	-	406	-	1,051	-	1,051
Total expenses	\$ 686,823	\$ 233,797	\$ 303,798	\$ 1,224,418	\$ 984,068	\$ 224,879	\$ 368,224	\$ 1,577,171

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA
STATEMENTS OF CASH FLOWS

<i>For the year ended December 31,</i>	2016	2015
Cash flows from operating activities:		
Changes in net assets	\$ 121,539	\$ (125,438)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	2,415	2,144
(Increase) decrease in assets:		
Pledges receivable	14,951	(14,651)
Due from Equality California Institute	(108,016)	204,082
Prepaid expenses and other current assets	150	(21,364)
Deposits	-	4,400
Increase (decrease) in liabilities:		
Accounts payable	(492)	(64,122)
Accrued expenses and other current liabilities	17,663	(15,908)
Net cash provided by (used in) operating activities	48,210	(30,857)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(835)
Net cash used in investing activities	-	(835)
Cash flows from financing activities:		
Payments on capital lease obligation	(5,942)	(5,297)
Net cash used in financing activities	(5,942)	(5,297)
Net increase (decrease) in cash and cash equivalents	42,268	(36,989)
Cash and cash equivalents, beginning of year	31,712	68,701
Cash and cash equivalents, end of year	\$ 73,980	\$ 31,712
Supplemental cash flow information:		
Recognition of in-kind contributions and related assets and expenses	\$ 222,080	\$ 162,713
Acquisition of property and equipment financed through a capital lease	\$ -	\$ 11,239

The accompanying notes are an integral part of these financial statements

For the year ended December 31, 2016 and 2015

NOTE 1

NATURE OF ORGANIZATION AND ACTIVITIES

Equality California (“Equality”) is the nation’s largest statewide lesbian, gay, bisexual and transgender civil rights organization dedicated to creating a fair and just society. Equality’s mission is to achieve and maintain full and lasting equality, acceptance, and social justice for all people in diverse LGBT communities, inside and outside of California. Equality California’s mission includes advancing the health and well-being of LGBT Californians through direct healthcare service advocacy and education. Through electoral, advocacy, education and mobilization programs, Equality California strives to create a broad and diverse alliance of LGBT people, educators, government officials, communities of color and faith, labor, business, and social justice communities to achieve its goals.

Equality California is made up of Equality California (the “Organization”) and Equality California Institute (the “Institute”). The two organizations share a common mission and executive director, but have separate governing boards.

Since 2000, Equality California has had an extensive legislative program in the California Legislature that has helped to win passage of more than 118 laws that improve the lives of LGBT people. Equality California’s legislative work has helped give California the most comprehensive LGBT civil rights protections of any state in the nation. The Organization has sponsored legislation to end “panic” defenses in court, where a victim’s sexual orientation or gender identity was used to justify violence, mandated LGBT cultural competency training for healthcare providers, required that death certificates for transgender Californians accurately reflect their authentic identities, required that the language of California’s

marriage documents be updated to make sure they respect and include same-sex couples, modernized birth certificates to accurately reflect LGBT parents, and more. The Organization also engages in governmental budget advocacy at the state and local level to make sure that government resources reach LGBT people in need.

Equality California has offices in Los Angeles, Sacramento, Orange County, San Francisco, the Central Valley, and Washington, DC. Equality California is exempt from federal and California income taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code and Section 23701(f) of the California Revenue and Taxation Code.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Equality California follows the provisions of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities*. Under these provisions, net assets, public support and revenue and expenses are classified based on the existence or absence of donor-imposed restrictions.

The Organization reports 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 classification of assets is based on the

For the year ended December 31, 2016 and 2015

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

existence or absence of donor imposed restrictions, and the statement of activities reflects the changes in the classification of net assets.

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. Equality California has no permanently restricted net assets as of December 31, 2016 or 2015.

In preparing these financial statements, the Organization evaluated the period from January 1, 2017 through November 15, 2017, the date the financial statements were available for issuance, for subsequent events requiring recognition and or disclosure in the accompanying financial statements.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and support recognition:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Cash and cash equivalents:

Cash and cash equivalents consist primarily of cash and money market funds. Management considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Fair value of financial instruments:

The carrying amount of cash and cash equivalents, pledges receivable, prepaid expenses and other current assets, amounts due to or from related parties, accounts payable and accrued expenses and other current liabilities are stated at fair value which approximates historical cost.

For the year ended December 31, 2016 and 2015

NOTE 2 – CONTINUED

**SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Property and equipment:

Property and equipment acquired is recorded at cost. Donated property and equipment is recorded at estimated fair market value at the date of donation. Property and equipment, which is donated or acquired with resources restricted for such acquisition, are considered to be unrestricted when placed into service. Depreciation and amortization is recorded using the straight-line method over the assets' estimated useful lives ranging from five to seven years.

Contributed goods and services:

Contributions of goods are recognized at fair value when received. During the years ended December 31, 2016 and 2015 the values of contributed goods included as in-kind donations which was related to special events in the accompanying financial statements were \$54,720 and \$36,800, respectively.

Contributions of services are recognized at fair value when received if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. During the years ended December 31, 2016 and 2015, the values of contributed services included as in-kind donations in the accompanying financial statements were \$167,360 and \$125,913, respectively. The in-kind services consisted primarily of legal services and rebranding support.

Functional allocation of expenses:

The costs of providing the various program services and other activities of Equality California are shown on the statement of functional expenses. Expenses that can be identified with a specific activity are allocated directly according to their functional benefit. Personnel related expense allocations are based on the staff time spent on each function. Expenses that cannot be directly identified with a specific function are allocated among program services and the other activities benefited. Certain costs such as occupancy, office and other expenses are allocated among the program services and other activities benefited based on full time equivalents.

Concentration of credit risk:

Cash and cash equivalents are financial instruments which potentially subject Equality California to a concentration of credit risk. Equality California maintains its cash and cash equivalents at one financial institution. The balances in these accounts may at times exceed federally insured limits. Equality California has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to these accounts.

Advertising expenses:

Equality California incurred non-direct response advertising costs that were expensed during the years ended December 31, 2016 and 2015. The total advertising costs of \$31,359 and \$36,136, respectively, were charged to program expenses as they directly promote programs and education events provided to the community they serve.

For the year ended December 31, 2016 and 2015

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income taxes:

The Organization follows the provisions of FASB ASC 740-10, *Income Taxes* and subsections. Accordingly, the Organization accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. The Organization does not believe that its financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

NOTE 3

PRIOR PERIOD RESTATEMENT

During the year ended December 31, 2015, the Organization determined that accounts payable balances as of December 31, 2014 were overstated by \$92,841. As a result, the previously reported unrestricted net assets as of December 31, 2014 was understated by \$92,841. Accordingly, the beginning of the year balance in unrestricted net assets was restated to correct these errors.

NOTE 4

PLEDGES RECEIVABLE

Pledges receivable at December 31, 2016 and 2015 consist of unconditional promises to give by certain donors totaled \$2,500 and \$17,451, respectively. This pledge receivables are due within one year.

The balances of the pledge receivable as of December 31, 2016 and 2015 were subsequently collected in 2017 and 2016, respectively.

NOTE 5

PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>As of December 31,</i>	2016	2015
Equipment	\$ 32,615	\$ 32,615
Computer and software	79,910	79,910
Leasehold improvements	33,840	33,840
Furnitures and fixtures	834	834
	147,199	147,199
Less: accumulated depreciation	(139,684)	(137,269)
	\$ 7,515	\$ 9,930

Depreciation and amortization expenses for the years ended December 31, 2016 and 2015 were \$2,415 and \$2,144, respectively.

Assets held under a capitalized lease are included in property and equipment as follows:

<i>As of December 31,</i>	2016	2015
Equipment	\$ 11,239	\$ 11,239
Less: accumulated depreciation	(4,308)	(2,060)
	\$ 6,931	\$ 9,179

The amortization of assets held under a capital lease is included in the depreciation and amortization expense.

For the year ended December 31, 2016 and 2015

NOTE 6

CAPITAL LEASE OBLIGATION

The Organization leased phone system equipment under a capital lease agreement expiring on December 26, 2016. This obligation has an implicit interest rate of 12.37%.

The balances of capital lease payable were \$0 and \$5,942 at December 31, 2016 and 2015, respectively.

NOTE 7

COMMITMENTS AND CONTINGENCIES

Leases:

The Organization's Los Angeles headquarters in 2015, 2016 and first four months of 2017 operated under a lease for a period of twenty-five (25) months effective December 15, 2014. Monthly rent related to this lease was \$3,333, and increased to \$3,433 starting January 1, 2016.

Effective on May 1, 2017, the Organization moved its Los Angeles headquarters to a new location. The lease is for a period of sixty (60) months, the rent for the second to fourth months of the initial term was fully abated. Monthly rent related to this lease is \$8,812, with an annual escalation clause of 3%.

In addition, the Organization leases its other offices and a storage space on a month-to-month basis.

The Organization also leases office equipment for its various offices.

Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2016 were as follows:

<i>For the years ending December 31,</i>	<i>Amount</i>
2017	\$ 15,831
2018	1,050
	<hr/>
	\$ 16,881

Total rent expense for the years ended December 31, 2016 and 2015 was \$32,646 and 66,911, respectively, net of \$59,229 and \$26,402, respectively, allocated to the Institute.

Legal contingencies:

From time to time, Equality California participates as a plaintiff or petitioner in lawsuits related to equality issues which name the State of California, selected California counties and/or state officials acting in their official capacities as defendants. If Equality California did not prevail in these lawsuits, the defendants could seek an award of allowable costs against Equality California and other plaintiffs in these cases. It is not possible to estimate the amount of costs defendants might seek in the event that they prevail and accordingly the Organization has not recorded any liabilities for such situations as of December 31, 2016 or 2015.

NOTE 8

RELATED PARTY TRANSACTIONS

Equality California shares personnel, office space and various overhead costs with the Institute. Equality California generally allocates costs based on the time spent by personnel and other reasonable methods of allocation. The impact on either organization's viability should the costs not be shared has not been determined.

For the year ended December 31, 2016 and 2015

NOTE 8 – CONTINUED

RELATED PARTY TRANSACTIONS

Equality California invoiced the Institute for the following shared expenses:

<i>For the years ended December 31,</i>	2016	2015
Salaries payroll taxes and benefits	\$ 1,035,576	\$ 532,761
Other expenses	154,919	61,153
Direct special events expense	171,707	89,278
Travel and entertainment	47,092	27,996
Recruitment	34,353	34,872
	\$ 1,443,647	\$ 746,060

The Organization received grants from the Institute for \$255,000 and \$199,000 during the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, Equality California had a remaining receivable from the Institute for allocated expenses in the amounts of \$627,451 and 519,435, respectively.

NOTE 9

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 consist of the following:

<i>As of December 31,</i>	2016	2015
Kors Advocacy Project	\$ 24,757	24,756
Time Restrictions	15,312	\$ 4,000
Various Projects	395	2,234
	\$ 40,464	\$ 30,990

NOTE 10

RETIREMENT PLAN

Equality California has an existing retirement plan. The Plan covers all employees who are age 21 or older and have completed 1,000 hours of service within the 12 months following an employee's commencement of employment. The Organization may make discretionary matching contributions. There were no employer contributions during the years ended December 31, 2016 and 2015.