EQUALITY CALIFORNIA

EQUALITY CALIFORNIA INSTITUTE

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

EQUALITY CALIFORNIA

CONTENTS

Rossi LLP rossillp.com
Certified Public Accountants
Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Equality California Institute
Los Angeles, California

We have audited the accompanying financial statements of Equality California Institute (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Equality California Institute as of December 31, 2017 and 2016, 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
September 29, 2018

EQUALITY CALIFORNIA INSTITUTE
STATEMENTS OF FINANCIAL POSITION

As of December 31,	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 981,111	$ 987,058
Pledges receivable	56,033	55,250
Prepaid expenses and other current assets	67,397	60,000
Total current assets	1,104,541	1,102,308
Long-term assets:		
Property and equipment, net	10,885	-
Total long-term assets	10,885	-
Total current assets and total assets	$ 1,115,426	$ 1,102,308
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 6,649	$ 88,090
Due to Equality California	582,447	627,451
Accrued expenses and other current liabilities	37,514	30,345
Total current liabilities	626,610	745,886
Net assets:		
Unrestricted	(309,329)	(569,735)
Temporarily restricted	798,145	926,157
Total net assets	488,816	356,422
Total liabilities and net assets	$ 1,115,426	$ 1,102,308

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA INSTITUTE
STATEMENTS OF ACTIVITIES

For the year ended December 31, 2017

	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Foundation contributions	$ 155,000	$ 1,260,000	$ 1,415,000
Individual and other contributions	281,631	-	281,631
In-kind donations	1,163,568	100,568	1,264,136
Special events, net of $192,054 of direct costs	275,075	8,000	283,075
Total public support	1,875,274	1,368,568	3,243,842
Revenue:			
Investment income	873	-	873
Total revenue	873	-	873
Net assets released from restriction:			
Satisfaction of purpose / time restrictions	1,496,580	(1,496,580)	-
Total public support and revenue	3,372,727	(128,012)	3,244,715
Expenses:			
Program services	2,867,856	-	2,867,856
Management and general	158,025	-	158,025
Fundraising	86,440	-	86,440
Total expenses	3,112,321	-	3,112,321
Change in net assets	260,406	(128,012)	132,394
Net assets, beginning of year	(569,735)	926,157	356,422
Net assets, end of year	$ (309,329)	$ 798,145	$ 488,816

The accompanying notes are an integral part of these financial statements

For the year ended December 31, 2016

	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Foundation contributions	$ 208,318	$ 1,542,841	$ 1,751,159
Individual and other contributions	302,097	-	302,097
In-kind donations	440,360	100,000	540,360
Special events, net of $173,759 of direct costs	210,091	-	210,091
Total public support	1,160,866	1,642,841	2,803,707
Revenue:			
Investment income	245	-	245
Miscellaneous income	3,210	-	3,210
Total revenue	3,455	-	3,455
Net assets released from restriction:			
Satisfaction of purpose / time restrictions	1,790,766	(1,790,766)	-
Total public support and revenue	2,955,087	(147,925)	2,807,162
Expenses:			
Program services	2,606,842	-	2,606,842
Management and general	179,645	-	179,645
Fundraising	116,246	-	116,246
Total expenses	2,902,733	-	2,902,733
Change in net assets	52,354	(147,925)	(95,571)
Net assets, beginning of year	(622,089)	1,074,082	451,993
Net assets, end of year	$ (569,735)	$ 926,157	$ 356,422

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA INSTITUTE
STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended December 31,	2017				2016			
	Program services	**Management and general**	**Fundraising**	**Total expenses**	**Program services**	**Management and general**	**Fundraising**	**Total expenses**
Communications	$ 834,834	$ -	$ -	$ 834,834	$ 165,917	$ -	$ -	$ 165,917
Salaries	642,775	77,756	68,320	788,851	757,456	78,911	96,352	932,719
Professional and outside services	474,548	2,120	8,497	485,165	371,719	4,201	3,986	379,906
Grant to Equality California	245,000	-	-	245,000	255,000	-	-	255,000
Legal	211,278	6,018	-	217,296	218,000	-	-	218,000
Travel and entertainment	131,340	573	1,831	133,744	98,692	3,451	6,504	108,647
Office expenses and supplies	90,553	3,475	1,255	95,283	62,480	5,063	960	68,503
Rent - building and equipment	53,249	6,926	1,912	62,087	52,350	5,120	1,759	59,229
Payroll taxes	52,010	5,857	1,652	59,519	63,300	9,170	2,527	74,997
Employee benefits	36,959	5,027	1,195	43,181	50,315	5,135	1,725	57,175
Accounting and audit	-	24,460	-	24,460	-	36,065	-	36,065
Bank charges and merchant fees	16,813	3,030	537	20,380	19,644	2,443	641	22,728
Miscellaneous	19,803	-	32	19,835	4,025	4,011	-	8,036
Insurance	7,429	11,001	234	18,664	17,351	10,702	647	28,700
Grants to other organizations	14,500	-	-	14,500	238,500	-	-	238,500
Conferences and meetings	12,917	-	-	12,917	16,361	35	-	16,396
Utilities and communications	10,475	1,679	291	12,445	10,944	1,410	299	12,653
Recruitment and training	6,733	1,814	554	9,101	2,640	1,252	111	4,003
Taxes and licenses	-	6,730	-	6,730	-	11,373	350	11,723
Dues and subscriptions	5,295	503	98	5,896	9,330	840	170	10,340
Repairs and maintenance	1,345	173	32	1,550	3,895	463	215	4,573
Depreciation and amortization	-	883	-	883	-	-	-	-
Polling and research	-	-	-	-	188,923	-	-	188,923
Total expenses	$ 2,867,856	$ 158,025	$ 86,440	$ 3,112,321	$ 2,606,842	$ 179,645	$ 116,246	$ 2,902,733

The accompanying notes are an integral part of these financial statements

EQUALITY CALIFORNIA INSTITUTE
STATEMENTS OF CASH FLOWS

For the years ended December 31,	2017	2016
Cash flows from operating activities:		
Changes in net assets	$ 132,394	$ (95,571)
Adjustments to reconcile change in net assets to net cash (used in) provided operating activities:		
Depreciation	883	-
Donated property and equipment	(11,768)	-
(Increase) decrease in assets:		
Pledges receivable	(783)	(33,902)
Prepaid expenses and other current assets	(7,397)	(53,948)
Increase (decrease) in liabilities:		
Accounts payable	(81,441)	81,914
Due to Equality California	(45,004)	108,016
Accrued expenses and other current liabilities	7,169	4,917
Net cash (used in) provided by operating activities	(5,947)	11,426
Net (decrease) increase in cash and cash equivalents	(5,947)	11,426
Cash and cash equivalents, beginning of year	987,058	975,632
Cash and cash equivalents, end of year	$ 981,111	$ 987,058
Supplemental cash flow information:		
Recognition of in-kind contributions and related assets and expenses	$ 1,264,136	$ 540,360

The accompanying notes are an integral part of these financial statements

As of and for the years ended December 31, 2017 and 2016

NOTE 1

NATURE OF INSTITUTE AND ACTIVITIES

Equality California is the nation's largest statewide lesbian, gay, bisexual, transgender and queer civil rights organization. Equality California brings the voices of LGBTQ people and allies to institutions of power in California and across the United States, striving to create a world that is healthy, just, and fully equal for all LGBTQ people. Equality California advances civil rights and social justice by inspiring, advocating, and mobilizing through an inclusive movement that works tirelessly on behalf of those it serves.

Equality California is made up of the Equality California Institute (the "Institute") and Equality California (the "Organization"). The Institute is an I.R.C. 501 (c)(3) organization that utilizes advocacy, education, and mobilization programs to achieve its mission. The Organization is an I.R.C. 501(c)(4) organization that utilizes electoral, advocacy, and mobilization programs to achieve its mission. The Institute and the Organization share a common mission and executive director but have separate governing boards.

The Institute was founded in 1999. The Institute conducts public education programs for members of the LGBTQ community and the general public, as well as for healthcare workers, educators and public policymakers. The Institute has launched a number of programs to address disparities in LGBTQ health and wellbeing, including the Safe and Supportive Schools Program, Health Happens With Equality, the #Equality4All Program and the Take It: I'm PrEP'd Program. The Institute also offers a four-week summer fellowship program in Sacramento to give college students first-hand experience working with legislators on state policy. The Institute also hosts annual "Fair Share for Equality" convenings of leaders from the LGBT community and community organizations, educators, social service agencies, and policymakers. The Institute created the Fair Share for Equality initiative to help educate the community and policymakers on how best to advance the health and well being of California's LGBTQ community.

The Institute is a qualified organization exempt from Federal and California income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. In addition, the Institute has made an election under Internal Revenue Code, Section 501(h), which permits limited expenditures to influence legislation.

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.

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

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unrestricted: Those net assets and activities 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. The Institute has no permanently restricted net assets as of December 31, 2017 and 2016.

In preparing these financial statements, the Institute evaluated the period from January 1, 2018 through September 29, 2018, 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 statements of activities as net assets released from restrictions. The Institute recognizes program service and public contract revenue in the period when the services have been provided.

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, grants and pledges receivable, accounts payable, accrued expenses and other current liabilities and amounts due to/from related parties are stated at fair value which approximates historical cost.

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 value at the date of donation. Property and equipment, which is donated or acquired with resources restricted for such acquisition, is considered to be unrestricted when placed into service. Depreciation and amortization is recorded using the straight-line method over the respective 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, 2017 and 2016, the values of contributed goods included as in-kind donations in the accompanying financial statements were $112,336 and $100,000, 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, 2017 and 2016, the values of contributed services included as in-kind donations in the accompanying financial statements were $1,151,800 and $440,360, respectively, which consisted primarily of legal services and communication support.

Functional allocation of expenses:

The costs of providing the various program services and other activities of the Institute 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 the 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 the Institute to a concentration of credit risk. The Institute maintains its cash and cash equivalents at one financial institution. The balances in these accounts at times exceeded federally insured limits. The Institute has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to these accounts.

In 2017 and 2016, the Institute derived 55% and 27% of its public support from two donors/grantors, respectively.

At December 31, 2017, 89% of promises to give were due from three donors. At December 31, 2016, 90% of promises to give were due from one donor.

Income taxes:

The Institute 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.

The Institute follows the provisions of FASB ASC 740-10, *Income Taxes* and related subsections. Accordingly, the Institute 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 Institute

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities.

New accounting standards not yet adopted:

Accounting for leases

In February of 2016, the FASB issued Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842).* ASU 2016-02 was issued to improve financial reporting about leasing transactions. The ASU affects all organizations that lease assets such as real estate and equipment. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with Generally Accepted Accounting Principles ("GAAP"), the recognition, measurement, and presentation of expenses and cashflows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of financial position, the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 will take effect for fiscal years beginning after December 15, 2019 with early adoption permitted. Management of the Institute is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

Accounting for net assets classifications

In August of 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 was issued to improve the current net asset classification requirements and the information presented in the financial statements and notes thereto about a not-for-profit entity's liquidity, financial performance, and cash flows. Additionally, the amendments in ASU 2016-14, among other matters, reduce the current three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). The amendments in ASU 2016-14 are effective for the fiscal years beginning after December 15, 2017 with early adoption permitted and should be applied on a retrospective basis to all periods presented. Management of the Institute is currently evaluating the impact of the pending adoption of ASU 2016-14 on its financial statements.

Clarifying the scope and the accounting guidance for contributions received and contributions made

In June of 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958).* ASU 2018-08 clarifies and improves the scope and accounting guidance for contributions received and made.

ASU 2018-08 updates current guidance about whether a transfer of assets or the reduction, settlement, or cancellation of liabilities should be accounted for as a contribution or an exchange transaction. Specifically, ASU 2018-08 established criteria for determining whether the asset provider is receiving commensurate value in return for transactions. That determination then dictates whether the Institute will follow contributions guidance which is Topic 958, *Not-for-Profit Entities* or exchange transaction guidance found in the revenue recognition and other applicable standards such as Topic 605, *Revenue from Contracts with Customers.*

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ASU 2018-08 also provides an enhanced framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. Such classification affects the timing of contribution revenue and expense recognition.

ASU 2018-08 should be applied on a modified prospective basis. Retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date, the amendments should be applied to agreements that are either:

- Not completed as of the effective date
- Entered into after the effective date

A completed agreement is an agreement for which all the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance (for example, Topic 605 - *Revenue Recognition,* Topic 958 - *Not-for-Profit Entities*).

This is applicable only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance.

No prior-period results should be restated and no cumulative-effect adjustments to the opening balance of net assets at the beginning of the year of adoption will be made as a result of the ultimate adoption of this new accounting standard.

The entity is required to disclose both:

- The nature of and reason for the accounting change;
- An explanation of the reasons for significant changes in each financial statement line item in the current annual or interim period resulting from applying the amendments instead of the previous guidance.

A public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard for transactions in which the entity serves as a *resource recipient* to annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. All other entities should apply the standard in which the entity serves as the resource recipient to annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

NOTE 3

PLEDGES RECEIVABLE

Pledges receivable at December 31, 2017 and 2016 consist of unconditional promises to give by certain donors which totaled $56,033 and $55,250, respectively. The pledges receivables are due within one year. The pledges receivable were collected subsequent to year end.

There was no bad debt expense during the years ended December 31, 2017 and 2016.

As of and for the years ended December 31, 2017 and 2016

NOTE 4

PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

As of December 31,	2017	2016
Computer, software and equipment	$ 17,387	$ 17,387
Donated furniture and fixtures	11,768	-
Leasehold improvements	3,200	3,200
	32,355	20,587
Less: accumulated depreciation	(21,470)	(20,587)
	$ 10,885	$ -

A total of $11,768 of furniture was donated during the year ended December 31, 2017. Depreciation and amortization expense totaled $883 for the year ended December 31, 2017.

There were no depreciation and amortization expense for the year ended December 31, 2016.

NOTE 5

RELATED PARTY TRANSACTIONS

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

The Institute was invoiced by Equality California for the following shared expenses for the years ended December 31, 2017 and 2016:

For the years ended December 31,	2017	2016
Salaries payroll taxes and benefits	$ 765,058	$1,035,576
Other expenses	375,894	154,919
Direct special events expense	188,016	171,707
Office expenses and supplies	32,600	34,353
Travel and entertainment	26,665	47,092
	$ 1,388,233	$1,443,647

In addition, the Institute issued grants to Equality California in the amounts of $245,000 and $255,000 during the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the Institute had remaining payable balances to Equality California of $582,447 and $627,451, respectively, for allocated expenses and grant expenses.

NOTE 6

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2017 and 2016 consist of the following:

As of December 31,	2017	2016
California Endowment	$ 300,000	$ 50,668
Gilead PrEP Education	250,000	277,958
Various Other Projects	68,245	123,443
Time Restrictions	65,000	70,000
Transgender Public Education	64,892	125,379
Kors Pub Advocate	35,500	35,500
Immigration Reform	14,508	20,624
HIV/AIDS Project	-	175,666
Comcast Fellowship Program	-	46,919
	$ 798,145	$ 926,157

NOTE 7

COMMITMENTS AND CONTINGENCIES

Legal contingencies:

From time to time, the Institute participates as a plaintiff or petitioner in lawsuits related to equality issues. If the Institute did not prevail in these lawsuits, the defendants could seek an award of allowable costs against the Institute 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 Institute has not recorded any liabilities for such situations as of December 31, 2017 or 2016.

NOTE 8

401(K) PLAN

The Institute has an existing 401(k) 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. Equality California may make discretionary matching contributions. There were $1,000 and $0 employer contributions during the years ended December 31, 2017 and 2016.