



Financial Statements
(Together with Independent Auditors' Report)

For the Year Ended October 31, 2015
(With Comparative Totals For October 31, 2014)

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

**FOR THE YEAR ENDED OCTOBER 31, 2015
(With Comparative Totals For October 31, 2014)**

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Lambda Legal Defense and Education Fund, Inc.

We have audited the accompanying financial statements of the Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal"), which comprise the statement of financial position as of October 31, 2015, and the related statements of activities, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 Lambda Legal as of October 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The prior year summarized comparative information has been derived from Lambda Legal's October 31, 2014 financial statements and, in our report dated February 12, 2015, we expressed an unmodified opinion on those financial statements.

Marks Paneth LLP

New York, NY
February 10, 2016

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2015
(With Comparative Totals For October 31, 2014)

	2015	2014
ASSETS		
Cash (Note 11)	\$ 1,368,730	\$ 1,061,282
Pledges receivable, net - individuals (Note 2K)	1,452,813	401,743
Grants receivable - foundations and corporations (Note 2K)	55,500	255,000
Bequests receivable, net (Notes 2H and 3)	1,086,239	1,826,303
Prepaid expenses and other assets	1,551,980	853,914
Property and equipment, net (Notes 2D and 5)	684,480	820,514
Investments (Notes 2E, 4, 11 and 12)	12,271,131	12,704,085
Assets held for gift annuities (Notes 2G, 4 and 12)	2,131,083	1,963,267
Beneficial interest in trusts (Note 13)	1,298,626	1,428,219
TOTAL ASSETS	\$ 21,900,582	\$ 21,314,327
LIABILITIES		
Accounts payable and accrued expenses	\$ 586,386	\$ 484,044
Accrued payroll and vacation	545,080	532,151
Deferred income (Note 2L)	11,945	19,195
Deferred rent (Note 2M)	796,840	785,539
Liabilities under gift annuities (Note 2G)	1,108,541	997,041
TOTAL LIABILITIES	3,048,792	2,817,970
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS (Note 2C)		
Unrestricted	14,507,770	14,130,812
Temporarily restricted (Note 8)	4,045,930	4,085,443
Permanently restricted (Note 8)	298,090	280,102
TOTAL NET ASSETS	18,851,790	18,496,357
TOTAL LIABILITIES AND NET ASSETS	\$ 21,900,582	\$ 21,314,327

The accompanying notes are an integral part of these financial statements.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2015
(With Comparative Totals For October 31, 2014)

	For the Year Ended October 31, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
PUBLIC SUPPORT AND REVENUE:					
Special events revenue	\$ 4,283,405	\$ 1,052,500	\$ -	\$ 5,335,905	\$ 4,584,636
Less: direct special event expenses	(785,753)	-	-	(785,753)	(733,309)
Net revenues from special events	3,497,652	1,052,500	-	4,550,152	3,851,327
Grants from foundations and corporations (Note 2B)	759,481	522,000	-	1,281,481	1,439,844
Contributions and memberships (Note 2B)	5,243,286	1,179,088	-	6,422,374	5,008,480
Bequests (Note 2H)	3,032,503	735,414	17,988	3,785,905	4,365,647
Donated goods and services (Notes 2F and 9)	4,418,921	-	-	4,418,921	10,264,934
Attorney fees (Note 2J)	1,586,596	-	-	1,586,596	18,000
Contributions under gift annuities (Note 2G)	146,293	-	-	146,293	123,178
Investment activity (Note 4)	242,646	6,803	-	249,449	787,593
Change in value of gift annuities (Note 2G)	(18,865)	-	-	(18,865)	(76,537)
Change in value of beneficial interest in trusts (Note 13)	-	(129,593)	-	(129,593)	25,851
Other revenue (Note 7A)	26,230	-	-	26,230	17,714
Loss on disposal of property and equipment (Note 5)	(116)	-	-	(116)	(2,428)
Net assets released from restrictions (Note 8)	3,405,725	(3,405,725)	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	22,340,352	(39,513)	17,988	22,318,827	25,823,603
EXPENSES:					
Program Services:					
Legal	10,312,813	-	-	10,312,813	15,768,906
Educational	6,411,415	-	-	6,411,415	5,629,605
Total program services	16,724,228	-	-	16,724,228	21,398,511
Supporting Services:					
Management and general	2,015,668	-	-	2,015,668	2,003,634
Fundraising	2,987,597	-	-	2,987,597	2,821,193
Special events	235,901	-	-	235,901	239,335
Total supporting services	5,239,166	-	-	5,239,166	5,064,162
TOTAL EXPENSES	21,963,394	-	-	21,963,394	26,462,673
CHANGE IN NET ASSETS	376,958	(39,513)	17,988	355,433	(639,070)
Net assets - beginning of year	14,130,812	4,085,443	280,102	18,496,357	19,135,427
NET ASSETS - END OF YEAR	\$ 14,507,770	\$ 4,045,930	\$ 298,090	\$ 18,851,790	\$ 18,496,357

The accompanying notes are an integral part of these financial statements.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2015
(With Comparative Totals For October 31, 2014)

	For the Year Ended October 31, 2015								
	Program Services			Supporting Services					
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2015	Total 2014
Salaries	\$ 3,390,869	\$ 2,444,579	\$ 5,835,448	\$ 788,574	\$ 1,261,718	\$ -	\$ 2,050,292	\$ 7,885,740	\$ 7,620,287
Payroll taxes and employee benefits (Note 6)	1,477,802	1,065,392	2,543,194	343,675	549,880	-	893,555	3,436,749	3,074,174
Total Salaries and Related Costs	4,868,671	3,509,971	8,378,642	1,132,249	1,811,598	-	2,943,847	11,322,489	10,694,461
Donated goods and services (Notes 2F and 9)	4,085,371	125,378	4,210,749	153,428	54,744	-	208,172	4,418,921	10,253,879
Printing and outreach	-	1,415,864	1,415,864	-	599,582	78,237	677,819	2,093,683	1,676,255
Occupancy (Note 7)	527,466	375,087	902,553	117,215	152,379	-	269,594	1,172,147	1,234,242
Professional services	93,240	423,588	516,828	259,036	195,964	107,500	562,500	1,079,328	728,283
Travel and meetings	216,652	303,527	520,179	28,201	40,454	35,778	104,433	624,612	594,484
Office supplies	32,562	23,155	55,717	7,230	9,407	-	16,637	72,354	84,420
Insurance	42,869	30,485	73,354	9,527	12,384	-	21,911	95,265	92,596
Equipment rental and repairs	35,730	25,408	61,138	7,940	10,322	-	18,262	79,400	78,469
Telecommunications	120,246	85,355	205,601	24,815	32,259	-	57,074	262,675	255,089
Dues and subscriptions	24,864	9,809	34,673	3,775	14,272	-	18,047	52,720	42,571
Credit card and bank charges (Note 4)	-	-	-	229,293	-	-	229,293	229,293	247,233
Postage	21,131	29,699	50,830	3,827	26,913	14,386	45,126	95,956	99,980
Recruitment and training	8,761	6,705	15,466	13,096	8,069	-	21,165	36,631	47,149
Direct case expenses	168,616	-	168,616	-	-	-	-	168,616	165,578
Direct special event expenses	-	-	-	-	-	785,753	785,753	785,753	733,309
Bad debt	-	-	-	11,229	-	-	11,229	11,229	932
Depreciation and amortization (Note 5)	66,634	47,384	114,018	14,807	19,250	-	34,057	148,075	167,052
Subtotal	10,312,813	6,411,415	16,724,228	2,015,668	2,987,597	1,021,654	6,024,919	22,749,147	27,195,982
Less: expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	(785,753)	(785,753)	(785,753)	(733,309)
TOTAL EXPENSES	\$ 10,312,813	\$ 6,411,415	\$ 16,724,228	\$ 2,015,668	\$ 2,987,597	\$ 235,901	\$ 5,239,166	\$ 21,963,394	\$ 26,462,673

The accompanying notes are an integral part of these financial statements.

LAMDBA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2015
(With Comparative Totals For October 31, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 355,433	\$ (639,070)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	148,075	167,052
Contributions permanently restricted	(17,988)	-
Loss on disposition of property and equipment	116	2,428
Change in value of gift annuities	18,865	76,537
Change in value of beneficial interest in trusts	129,593	(25,851)
Change in discount on bequest receivable	(11,250)	(55,900)
Net realized and unrealized gain on investments and gift annuities	(31,152)	(567,002)
Deferred rent	11,301	58,088
Bad debt expense	11,229	932
	614,222	(982,786)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	(1,062,299)	8,851
Grants receivable - foundations and corporations	199,500	(180,000)
Bequest receivable	751,314	1,426,178
Prepaid expenses and other assets	(698,066)	16,137
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	102,342	(110,993)
Accrued payroll and vacation	12,929	30,782
Deferred income	(7,250)	4,734
	(87,308)	212,903
Net Cash (Used in) Provided by Operating Activities	(87,308)	212,903
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	18,988,499	5,603,835
Purchase of investments	(18,692,310)	(5,196,102)
Purchase of property and equipment and leasehold improvements	(12,157)	(314,959)
	284,032	92,774
Net Cash Provided by Investing Activities	284,032	92,774
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities and trusts	(133,034)	(106,670)
Contributions permanently restricted	17,988	-
Proceeds from trusts	-	5,165
Proceeds from issuance of annuities	225,770	98,559
	110,724	(2,946)
Net Cash Provided by (Used in) Financing Activities	110,724	(2,946)
NET INCREASE IN CASH	307,448	302,731
Cash - beginning of year	1,061,282	758,551
CASH - END OF YEAR	\$ 1,368,730	\$ 1,061,282

The accompanying notes are an integral part of these financial statements.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Lambda Legal Defense and Education Fund, Inc. (“Lambda Legal”) is a national organization committed to achieving full recognition of the civil rights of lesbians, gay men, bisexuals, transgender people and those with HIV through impact litigation, education and public policy work.

Founded in 1973, Lambda Legal is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and has been held to be a publicly supported organization and not a private foundation under Section 509(a). Funding is primarily from contributions, bequests and donated services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Lambda Legal's financial statements have been prepared on the accrual basis of accounting. Lambda Legal adheres to accounting policies generally accepted in the United States of America (“U.S. GAAP”).
- B. Lambda Legal reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Accordingly, even if a restriction is fulfilled in the same time period in which the contribution is received, Lambda Legal reports the support as temporarily restricted, as well as released from restrictions.
- C. Lambda Legal maintains its net assets under the following three classes:
- Unrestricted – net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
 - Temporarily Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Lambda Legal pursuant to those stipulations. In addition, earnings on endowment assets are classified as temporarily restricted until appropriated for operations by the Board. When such stipulations end or are fulfilled or endowment earnings are appropriated for operations, such temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.
 - Permanently Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Lambda Legal.
- D. Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Contributed fixed assets are stated at fair value at the date of gift. Lambda Legal has established a \$1,000 threshold above which assets are capitalized. Purchases below \$1,000 are expensed at the time of acquisition. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. All other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.
- E. Investments are stated at their fair values. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned.
- F. Lambda Legal records contributed items at their fair value on the date of receipt. Lambda Legal also receives contributed services that are an integral part of its operations. Such services are only recorded as contributions in-kind (at their fair value) provided they meet the criteria for recognition. Donated services received are estimated at \$4,418,921 and \$10,253,879 for the years ended October 31, 2015 and 2014, respectively, and are reflected as donated services as both income and expense in the accompanying financial statements. In addition, Lambda Legal received donated software estimated at \$11,055 for the year ended October 31, 2014.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Lambda Legal has a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar annual return of the gift assets during their lifetimes. Payments begin in accordance with the timing stipulated in the gift annuity contracts. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the statement of activities.

Lambda Legal is the recipient of deferred gift annuities. Each annuity is summarized in the table below.

	Amount Received	Fiscal Year Received	Payments Commencing in	Annual Payment	Lambda Legal Obligated To Make Payments Until
1)	\$ 20,000	10/31/2011	June 2020	\$ 1,700	donor's death
2)	\$ 10,000	10/31/2011	December 2016	\$ 650	donor's death
3)	\$ 10,331	10/31/2012	June 2017	\$ 537	donor's death, thereafter to beneficiary till his/her death
4)	\$ 10,000	10/31/2013	December 2018	\$ 510	donor's death
5)	\$ 12,000	10/31/2014	October 2019	\$ 684	donor's death
6)	\$ 30,000	10/31/2014	March 2023	\$ 1,890	donor's death
7)	\$ 12,327	10/31/2014	September 2019	\$ 690	donor's death
8)	\$ 19,637	10/31/2015	September 2020	\$ 1,100	donor's death

For each of the above deferred gift annuities, if the donor and/or beneficiary die before the date in which payments are scheduled to commence, Lambda Legal is released from all obligations.

Lambda Legal's entire gift annuity program has a recorded asset amounting to \$2,131,083 and a liability of \$1,108,541 as of October 31, 2015. Contribution income amounted to \$146,293 for the year ended October 31, 2015, and is included in the accompanying statement of activities.

- H. Legacies and bequests are recognized when Lambda Legal is notified that all disputes are resolved and funds are forthcoming. Accordingly, bequests are accrued when wills have passed through probate and legal counsel has confirmed amounts held on behalf of Lambda Legal. It is Lambda Legal's practice to discount bequests receivable due in more than one year to its present value using a risk adjusted rate of return, unless the value is immaterial. The amortization of the bequest discount is reflected as additional contribution revenue. Lambda Legal received a generous bequest in fiscal year 2008 further discussed in Note 3.
- I. Lambda Legal's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts held by third parties. Charitable remainder unitrust gifts are time-restricted contributions not available to Lambda Legal until after the death of the donor and other beneficiaries, who, while living, receive payouts from the trust based on a fixed percentage of the market value of the invested funds each year as stated in the trust agreements. The trust agreements, in certain instances, allow for the beneficiaries to receive additional distributions, which may substantially reduce the value of expected future cash flows.

Lambda Legal recognizes as assets and contributions to temporarily restricted net assets the fair value of the trusts based on the present value of the estimated expected future cash flows from the trusts' assets. The carrying value of the assets is adjusted to fair value at the end of the year. Distributions received by Lambda Legal are unrestricted for general purposes.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- J. Attorney fees are agreed upon fees in amounts corresponding to the value of the time spent by attorneys and can include reimbursement of actual expenses incurred while litigating matters on behalf of Lambda Legal's clients.
- K. Pledges and grants are recorded as revenue when the pledge or grant is made. It is Lambda Legal's practice to discount pledges and grants receivable due in more than one year to net present value unless the value is immaterial. Pledges and grants receivable are all scheduled to be collected by October 31, 2016. In addition, historically, Lambda Legal has not experienced significant bad debt losses. Lambda Legal bases its allowance for doubtful accounts on its historical loss experience considering the age of the receivables. Pledges and grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Lambda Legal has determined that an allowance of approximately \$25,000 and \$30,000 was necessary as of October 31, 2015 and 2014, respectively, for pledges receivable and no allowance was necessary for grants receivable.
- L. Lambda Legal sometimes receives cash in advance of special events that is to be held after the statement of financial position date. It is Lambda Legal's policy to record the contribution portion of the events as income when received and the exchange portion as deferred income until earned.
- M. As described in Note 7, Lambda Legal has lease agreements for the rental of offices in a number of locations. Under the terms of the various lease agreements, the lessors have provided free rent periods and/or other pricing concessions to Lambda Legal. In conformity with U.S. GAAP, Lambda Legal has recorded an adjustment to rent expense to reflect the difference between the rent paid and the average rent to be paid over the terms of the leases which amounted to \$11,301 and \$58,088 for the years ended October 31, 2015 and 2014, respectively, and recorded such amounts as an increase in occupancy expenses. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying statement of financial position.
- N. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- O. The October 31, 2015, financial statements include certain prior-year summarized comparative information in total but not in detail for the statements of activities and functional expenses. In addition, certain notes to the financial statements do not contain full detail for October 31, 2014. As a result, the October 31, 2014 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such October 31, 2014 information should be read in conjunction with Lambda Legal's financial statements for the year ended October 31, 2014, from which the summarized information was derived.
- P. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 12.
- Q. Lambda Legal considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents, except for those short-term investments managed by Lambda Legal's investment managers as part of its long-term investment strategies.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 3 – BEQUESTS RECEIVABLE

Bequests receivable consist primarily of a generous bequest from the Estate of Ric Weiland. As of October 31, 2015 and 2014, the net bequest receivable associated with this contribution amounted to approximately 42% and 74%, respectively, of total receivables. Equal quarterly disbursements of the Weiland Estate commenced in March of 2008 and are scheduled to continue for an eight year period ending in 2016. During the years ended October 31, 2009 and 2015, Lambda Legal was notified of additional distributions.

As of October 31, 2015 and 2014, bequests receivable are scheduled to be received as follows:

	<u>2015</u>	<u>2014</u>
Amount due in less than one year	\$ 1,086,239	\$ 1,475,478
Amount due in one to five years	<u>-</u>	<u>362,075</u>
	1,086,239	1,837,553
Less discount (at 3.23%)	<u>-</u>	<u>(11,250)</u>
	<u>\$ 1,086,239</u>	<u>\$ 1,826,303</u>

NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 5,180,308	\$ 976,534
Equities and equity mutual fund	5,364,152	5,237,104
Fixed income	<u>1,726,671</u>	<u>6,490,447</u>
	<u>\$ 12,271,131</u>	<u>\$ 12,704,085</u>

Certain investments are subject to market volatility that could substantially change their carrying value in the near term.

Assets held for gift annuities consist of the following as of October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 149,974	\$ 56,982
Equities and equity mutual fund	801,053	791,388
Fixed income	<u>1,180,056</u>	<u>1,114,897</u>
	<u>\$ 2,131,083</u>	<u>\$ 1,963,267</u>

Investment activity for investments held consists of the following for the years ended October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 168,213	\$ 177,846
Unrealized gain on investments	2,225	472,077
Realized gain on investment sales	<u>43,203</u>	<u>32,034</u>
	<u>\$ 213,641</u>	<u>\$ 681,957</u>

See next page for further investment activity detail.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES (Continued)

Investment activity for assets held for gift annuities consists of the following for the years ended October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 50,084	\$ 42,745
Unrealized loss on investments	(18,398)	(27,893)
Realized gain on investment sales	<u>4,122</u>	<u>90,784</u>
	<u>\$ 35,808</u>	<u>\$ 105,636</u>
Total investment activity	<u>\$ 249,449</u>	<u>\$ 787,593</u>

Lambda Legal incurred investment management fees of \$90,987 and \$87,095 during the years ended October 31, 2015 and 2014, respectively. The fees are reflected as credit card and bank charges in the accompanying statement of functional expenses.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 752,027	\$ 809,098	3-5 years
Leasehold improvements	<u>629,786</u>	<u>624,288</u>	5-15 years
Total cost	1,381,813	1,433,386	
Less: accumulated depreciation and amortization	<u>(697,333)</u>	<u>(612,872)</u>	
Net book value	<u>\$ 684,480</u>	<u>\$ 820,514</u>	

Depreciation and amortization expense amounted to \$148,075 and \$167,052 for the years ended October 31, 2015 and 2014, respectively. During the year ended October 31, 2015, Lambda Legal disposed of property and equipment totaling \$63,730 and having a net book value of \$116. This resulted in a loss on disposal amounting to \$116.

NOTE 6 – PENSION PLAN

Lambda Legal maintains a qualified defined contribution pension plan covering all eligible employees after one year of service. Employees vest over a multiyear period. Lambda Legal makes discretionary contributions to this plan based on an approval by the Board of Directors. For each of the years ended October 31, 2015 and 2014, Lambda Legal contributed 10% of the participating employees' salaries, which amounted to approximately \$683,000 and \$611,000, respectively.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

A. Lambda Legal has lease agreements for the rental of its New York, Los Angeles, Chicago, Dallas and Atlanta offices as well as several operating leases. Minimum annual rentals related to the above leases are as follows for years ended subsequent to October 31, 2015:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 1,000,000	\$ 58,000	\$ 1,058,000
2017	1,020,000	28,000	1,048,000
2018	950,000	18,000	968,000
2019	969,000	-	969,000
2020	844,000	-	844,000
Thereafter	<u>5,270,000</u>	<u>-</u>	<u>5,270,000</u>
	<u>\$ 10,053,000</u>	<u>\$ 104,000</u>	<u>\$ 10,157,000</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)

Rent expense amounted to approximately \$1,038,000 and \$1,029,000 for the years ended October 31, 2015 and 2014, respectively.

Other revenue in the accompanying statement of activities includes rental income from subleases amounting to \$9,066 and \$8,825 for the years ended October 31, 2015 and October 31, 2014, respectively.

- B. Lambda Legal believes it has no uncertain income tax positions as of October 31, 2015 in accordance with Accounting Standards Codification (“ASC”) Topic 740 (“Income Taxes”), which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 8 – NET ASSETS

Temporarily restricted net assets consist of the following as of October 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Time restrictions	\$ 3,902,974	\$ 3,941,035
Purpose restrictions	73,920	82,175
Unappropriated earnings from permanently restricted fund	<u>69,036</u>	<u>62,233</u>
	<u>\$ 4,045,930</u>	<u>\$ 4,085,443</u>

Net assets were released from restrictions during the year ended October 31, 2015, by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

Marriage	\$ 212,308
Midwest Regional Office	233,054
Fair Courts	250,000
Marketing	571,080
Youth	78,500
Other	46,081
Period ended October 31, 2015	<u>2,014,702</u>
	<u>\$ 3,405,725</u>

Lambda Legal believes it has adopted reasonable and prudent investment policies for endowment assets that attempt to achieve favorable investment returns without exposure to undue risk that would threaten the preservation and growth of endowment principal. The portfolio is invested by external investment managers based on a diversified total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Lambda Legal recognizes that the New York Prudent Management of Institutional Funds Act (“NYPMIFA”) permits the Board of Directors to appropriate for expenditure all earnings of endowment funds (both realized and unrealized) with a presumption of prudence to a ceiling of 7% annually based on a quarterly rolling five-year average of the endowment’s market value. The Board elected not to appropriate any endowment funds for expenditure during the years ended October 31, 2015 and 2014.

In accordance with NYPMIFA, any unappropriated earnings on endowment funds that would otherwise be considered unrestricted by the donor should be reflected as temporarily restricted until appropriated by the Board of Directors. Accordingly, all investment earnings on the endowment since inception have been reclassified as temporarily restricted net assets in a manner consistent with the standards prescribed by NYPMIFA.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 8 – NET ASSETS (Continued)

Changes in endowment net assets for year ended October 31, 2015, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2015</u>
Investment Activity:			
Unrealized and realized gain on investments	\$ 6,803	\$ -	\$ 6,803
Contributions received	-	17,988	17,988
Change in endowment net assets	6,803	17,988	24,791
Endowment net assets, beginning of year	<u>62,233</u>	<u>280,102</u>	<u>342,335</u>
Endowment net assets, end of year	<u>\$ 69,036</u>	<u>\$ 298,090</u>	<u>\$ 367,126</u>

Endowment net assets of \$367,126 are included with investments in the statement of financial position as of October 31, 2015.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Lambda Legal to retain as a fund of perpetual duration. In accordance with Lambda Legal's policy noted at Note 2C, deficiencies of this nature are reported in either restricted or unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred in the economy as a whole that may affect the amount that is required to be retained permanently. Lambda Legal has not incurred such deficiencies in its endowment funds as of October 31, 2015.

NOTE 9 – DONATED SERVICES

Some of the program services provided by Lambda Legal are furnished by lawyers and other professionals who, working under the supervision and guidance of Lambda Legal staff members, perform their services free of cost. The total amount of donated services for the years ended October 31, 2015 and 2014, amounted to \$4,418,921 and \$10,253,879 respectively.

NOTE 10 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$321,998 (other than donated services) for informational materials and activities that were included in fundraising appeals during the year ended October 31, 2015. Of these costs, \$102,849 was allocated to program expenses and \$219,149 was allocated to fundraising.

NOTE 11 – CONCENTRATIONS

Cash and cash equivalents that potentially subject Lambda Legal to a concentration of credit risk includes cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Bank accounts are insured up to \$250,000 per depositor. As of October 31, 2015 and 2014, there was approximately \$1,209,000 and \$1,075,000, respectively, of cash held by banks that exceeded FDIC limits. Such excess includes outstanding checks. As of October 31, 2015 and 2014, cash and cash equivalents included in Lambda Legal's investment accounts in excess of SIPC insurance limits amounted to approximately \$4,798,000 and \$940,000, respectively.

NOTE 12 – FAIR VALUE MEASUREMENTS

In determining fair value, Lambda Legal utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible in its assessment of fair value.

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Investments in money market funds, corporate equities, and U.S. government securities are valued using market prices in active markets (Level 1). Mutual funds are valued at the net asset value (“NAV”) of shares held by Lambda Legal at year end based upon quoted market prices determined in an active market. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in corporate bond mutual fund obligations are valued using quoted prices in inactive markets (Level 2). Level 2 instruments valuations are obtained from similar assets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Financial assets and liabilities are carried at fair value at October 31, 2015, are classified as Level 1 and Level 2 in the table as follows:

ASSETS CARRIED AT FAIR VALUE:	<u>Level 1</u>	<u>Level 2</u>	<u>Total 2015</u>
Investments:			
Money market funds	\$ 5,180,308	\$ -	\$ 5,180,308
Equities and equity mutual funds:			
Consumer goods	1,119,915	-	1,119,915
Health care	516,430	-	516,430
Technology	697,008	-	697,008
Financial	692,206	-	692,206
Industrial	789,061	-	789,061
International	769,238	-	769,238
Energy	394,098	-	394,098
Other	386,196	-	386,196
Fixed income:			
U.S. government bonds	259,263	-	259,263
Bond mutual funds	<u>1,467,408</u>	<u>-</u>	<u>1,467,408</u>
Total investments	<u>12,271,131</u>	<u>-</u>	<u>12,271,131</u>
Assets held for gift annuities:			
Money market funds	149,974	-	149,974
Equities and equity mutual funds:			
Domestic large cap	726,675	-	726,675
Other	74,378	-	74,378
Fixed income:			
Corporate bonds	-	555,830	555,830
U.S. government bonds	<u>624,226</u>	<u>-</u>	<u>624,226</u>
Total assets held for gift annuities	<u>1,575,253</u>	<u>555,830</u>	<u>2,131,083</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 13,846,384</u>	<u>\$ 555,830</u>	<u>\$ 14,402,214</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets and liabilities are carried at fair value at October 31, 2014, are classified as Level 1 and Level 2 in the table as follows:

ASSETS CARRIED AT FAIR VALUE:	<u>Level 1</u>	<u>Level 2</u>	<u>Total 2014</u>
Investments:			
Money market funds	\$ 976,534	\$ -	\$ 976,534
Equities and equity mutual funds:			
Consumer goods	967,191	-	967,191
Health Care	545,560	-	545,560
Technology	120,223	-	120,223
Financial	641,965	-	641,965
Industrial	896,604	-	896,604
International	806,976	-	806,976
Other	1,258,585	-	1,258,585
Fixed income:			
U.S. government bonds	1,288,212	-	1,288,212
Bond mutual funds	<u>5,202,235</u>	<u>-</u>	<u>5,202,235</u>
Total investments	<u>12,704,085</u>	<u>-</u>	<u>12,704,085</u>
Assets held for gift annuities:			
Money market funds	56,982	-	56,982
Equities and equity mutual funds:			
Domestic large cap	770,205	-	770,205
Other	21,183	-	21,183
Fixed income:			
Corporate bonds	-	107,636	107,636
U.S. government bonds	<u>1,007,261</u>	<u>-</u>	<u>1,007,261</u>
Total assets held for gift annuities	<u>1,855,631</u>	<u>107,636</u>	<u>1,963,267</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 14,559,716</u>	<u>\$ 107,636</u>	<u>\$ 14,667,352</u>

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended October 31, 2015 and 2014, there were no transfers.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 13 – BENEFICIAL INTEREST IN TRUSTS

Lambda Legal has been named a beneficiary in charitable trusts, five of which provide Lambda Legal current information.

The first trust is a Charitable Remainder Trust, from which upon the death of the recipient named in the trust, \$675,000 will be distributed among five other organizations and Lambda Legal will receive any remaining balance.

The second trust is a Charitable Remainder UniTrust from which a beneficiary is currently receiving 8% of the initial net-fair market value of the assets of such trust valued on the first business day of such taxable year. Subsequent to this beneficiary passing, Lambda Legal is named to receive 100% of the balance of the trust.

The third trust is a Charitable Remainder Trust from which beneficiaries are currently receiving income earned quarterly during their lifetime. Subsequent to all beneficiaries passing, Lambda Legal is named to receive 25% of the balance of the trust.

The fourth trust is a Charitable Remainder UniTrust from which a beneficiary is currently receiving income quarterly. The trust will terminate in 2016 or upon the beneficiary's death, whichever comes first. Lambda Legal is named to receive 20% of the balance of the trust.

The fifth trust is a Charitable Remainder Trust from which beneficiaries are currently receiving income earned quarterly during their lifetime. Subsequent to all beneficiaries passing, Lambda Legal is named to receive 30% of the balance of the trust.

NOTE 14 — SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through February 10, 2016, the date the financial statements were available to be issued.