



Financial Statements
(Together with Independent Auditors' Report)

Years Ended October 31, 2016 and 2015

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)**

YEARS ENDED OCTOBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
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 statements of financial position as of October 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 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.



New York, NY
March 1, 2017

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF OCTOBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash (Note 10)	\$ 1,954,635	\$ 1,368,730
Pledges receivable, net - individuals (Note 2K)	524,351	1,452,813
Grants receivable - foundations and corporations (Note 2K)	360,000	55,500
Bequests receivable (Notes 2H and 3)	40,000	1,086,239
Prepaid expenses and other assets	845,979	1,551,980
Property and equipment, net (Notes 2D and 5)	985,289	684,480
Investments (Notes 2E, 4, 7C, 10 and 11)	14,402,590	12,271,131
Assets held for gift annuities (Notes 2G, 4 and 11)	2,249,892	2,131,083
Beneficial interest in trusts (Note 12)	1,167,403	1,298,626
TOTAL ASSETS	\$ 22,530,139	\$ 21,900,582
LIABILITIES		
Accounts payable and accrued expenses	\$ 628,688	\$ 586,386
Accrued payroll and vacation	459,753	545,080
Deferred income (Note 2L)	100,009	11,945
Deferred rent (Note 2M)	835,349	796,840
Liabilities under gift annuities (Note 2G)	1,177,680	1,108,541
TOTAL LIABILITIES	3,201,479	3,048,792
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS (Note 2C)		
Unrestricted		
Invested in property and equipment	985,289	684,480
Board designated (Note 8)	542,417	-
Operations	13,693,674	13,823,290
Total unrestricted	15,221,380	14,507,770
Temporarily restricted (Note 8)	3,684,190	4,045,930
Permanently restricted (Note 8)	423,090	298,090
TOTAL NET ASSETS	19,328,660	18,851,790
TOTAL LIABILITIES AND NET ASSETS	\$ 22,530,139	\$ 21,900,582

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2016 AND 2015

	For the Year Ended October 31, 2016				For the Year Ended October 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015	Unrestricted	Temporarily Restricted	Permanently Restricted
PUBLIC SUPPORT AND REVENUE:								
Special events revenue	\$ 4,318,585	\$ 479,620	\$ -	\$ 4,798,205	\$ 5,335,905	\$ 4,283,405	\$ 1,052,500	\$ -
Less: direct special event expenses	(862,316)	-	-	(862,316)	(785,753)	(785,753)	-	-
Net revenues from special events	3,456,269	479,620	-	3,935,889	4,550,152	3,497,652	1,052,500	-
Grants from foundations and corporations (Note 2B)	898,854	1,028,500	25,000	1,952,354	1,281,481	759,481	522,000	-
Contributions and memberships (Note 2B)	4,723,701	279,368	100,000	5,103,069	6,422,374	5,243,286	1,179,088	-
Bequests (Note 2H)	4,925,939	1,559,080	-	6,485,019	3,785,905	3,032,503	735,414	17,988
Donated goods and services (Note 2F)	4,187,975	-	-	4,187,975	4,418,921	4,418,921	-	-
Attorney fees (Note 2J)	629,200	-	-	629,200	1,586,596	1,586,596	-	-
Contributions under gift annuities (Note 2G)	78,417	-	-	78,417	146,293	146,293	-	-
Investment activity (Note 4)	558,322	3,747	-	562,069	249,449	242,646	6,803	-
Change in value of gift annuities (Note 2G)	(71,966)	-	-	(71,966)	(18,865)	(18,865)	-	-
Change in value of beneficial interest in trusts (Note 12)	-	(131,223)	-	(131,223)	(129,593)	-	(129,593)	-
Other revenue (Note 7A)	25,937	-	-	25,937	26,230	26,230	-	-
Loss on disposal of property and equipment (Note 5)	(1,135)	-	-	(1,135)	(116)	(116)	-	-
Net assets released from restrictions (Note 8)	3,580,832	(3,580,832)	-	-	-	3,405,725	(3,405,725)	-
TOTAL PUBLIC SUPPORT AND REVENUE	22,992,345	(361,740)	125,000	22,755,605	22,318,827	22,340,352	(39,513)	17,988
EXPENSES: (Note 2Q)								
Program Services:								
Legal	10,407,716	-	-	10,407,716	10,312,813	10,312,813	-	-
Educational	6,029,662	-	-	6,029,662	6,411,415	6,411,415	-	-
Total program services	16,437,378	-	-	16,437,378	16,724,228	16,724,228	-	-
Supporting Services:								
Management and general	2,359,108	-	-	2,359,108	2,015,668	2,015,668	-	-
Fundraising	3,235,224	-	-	3,235,224	2,987,597	2,987,597	-	-
Special events	247,025	-	-	247,025	235,901	235,901	-	-
Total supporting services	5,841,357	-	-	5,841,357	5,239,166	5,239,166	-	-
TOTAL EXPENSES	22,278,735	-	-	22,278,735	21,963,394	21,963,394	-	-
CHANGE IN NET ASSETS	713,610	(361,740)	125,000	476,870	355,433	376,958	(39,513)	17,988
Net assets - beginning of year	14,507,770	4,045,930	298,090	18,851,790	18,496,357	14,130,812	4,085,443	280,102
NET ASSETS - END OF YEAR	\$ 15,221,380	\$ 3,684,190	\$ 423,090	\$ 19,328,660	\$ 18,851,790	\$ 14,507,770	\$ 4,045,930	\$ 298,090

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2016
(With Comparative Totals For October 31, 2015)

	For the Year Ended October 31, 2016								
	Program Services			Supporting Services					
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2016	Total 2015
Salaries	\$ 3,536,814	\$ 2,415,316	\$ 5,952,130	\$ 938,413	\$ 1,415,875	\$ -	\$ 2,354,288	\$ 8,306,418	\$ 7,885,740
Payroll taxes and employee benefits (Note 6)	1,572,977	1,060,845	2,633,822	393,724	621,875	-	1,015,599	3,649,421	3,436,749
Total Salaries and Related Costs	5,109,791	3,476,161	8,585,952	1,332,137	2,037,750	-	3,369,887	11,955,839	11,322,489
Donated goods and services (Note 2F)	3,897,549	52,971	3,950,520	140,940	96,515	-	237,455	4,187,975	4,418,921
Printing and outreach	-	1,054,082	1,054,082	-	564,667	97,091	661,758	1,715,840	2,093,683
Occupancy (Note 7A)	567,265	399,664	966,929	116,032	206,278	-	322,310	1,289,239	1,172,147
Professional services	39,075	557,705	596,780	374,320	130,589	110,320	615,229	1,212,009	1,079,328
Travel and meetings	225,966	232,073	458,039	32,008	51,846	27,432	111,286	569,325	624,612
Office supplies	28,616	20,161	48,777	10,714	10,405	-	21,119	69,896	72,354
Insurance	39,896	28,109	68,005	8,161	14,508	-	22,669	90,674	95,265
Equipment rental and repairs	40,440	28,492	68,932	8,272	14,705	-	22,977	91,909	79,400
Telecommunications	110,576	69,978	180,554	19,518	35,329	-	54,847	235,401	262,675
Dues and subscriptions	21,132	15,589	36,721	5,642	13,102	-	18,744	55,465	52,720
Credit card and bank charges (Note 4)	-	-	-	212,643	-	-	212,643	212,643	229,293
Postage	38,601	31,980	70,581	6,511	25,603	12,182	44,296	114,877	95,956
Recruitment and training	18,563	14,668	33,231	6,409	9,137	-	15,546	48,777	36,631
Direct case expenses	202,077	-	202,077	-	-	-	-	202,077	168,616
Direct special event expenses	-	-	-	-	-	862,316	862,316	862,316	785,753
Bad debt	-	-	-	71,858	-	-	71,858	71,858	11,229
Depreciation and amortization (Note 5)	68,169	48,029	116,198	13,943	24,790	-	38,733	154,931	148,075
Subtotal	10,407,716	6,029,662	16,437,378	2,359,108	3,235,224	1,109,341	6,703,673	23,141,051	22,749,147
Less: expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	(862,316)	(862,316)	(862,316)	(785,753)
TOTAL EXPENSES	\$ 10,407,716	\$ 6,029,662	\$ 16,437,378	\$ 2,359,108	\$ 3,235,224	\$ 247,025	\$ 5,841,357	\$ 22,278,735	\$ 21,963,394

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

	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
Salaries	\$ 3,390,869	\$ 2,444,579	\$ 5,835,448	\$ 788,574	\$ 1,261,718	\$ -	\$ 2,050,292	\$ 7,885,740
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
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
Donated goods and services (Note 2F)	4,085,371	125,378	4,210,749	153,428	54,744	-	208,172	4,418,921
Printing and outreach	-	1,415,864	1,415,864	-	599,582	78,237	677,819	2,093,683
Occupancy (Note 7A)	527,466	375,087	902,553	117,215	152,379	-	269,594	1,172,147
Professional services	93,240	423,588	516,828	259,036	195,964	107,500	562,500	1,079,328
Travel and meetings	216,652	303,527	520,179	28,201	40,454	35,778	104,433	624,612
Office supplies	32,562	23,155	55,717	7,230	9,407	-	16,637	72,354
Insurance	42,869	30,485	73,354	9,527	12,384	-	21,911	95,265
Equipment rental and repairs	35,730	25,408	61,138	7,940	10,322	-	18,262	79,400
Telecommunications	120,246	85,355	205,601	24,815	32,259	-	57,074	262,675
Dues and subscriptions	24,864	9,809	34,673	3,775	14,272	-	18,047	52,720
Credit card and bank charges (Note 4)	-	-	-	229,293	-	-	229,293	229,293
Postage	21,131	29,699	50,830	3,827	26,913	14,386	45,126	95,956
Recruitment and training	8,761	6,705	15,466	13,096	8,069	-	21,165	36,631
Direct case expenses	168,616	-	168,616	-	-	-	-	168,616
Direct special event expenses	-	-	-	-	-	785,753	785,753	785,753
Bad debt	-	-	-	11,229	-	-	11,229	11,229
Depreciation and amortization (Note 5)	66,634	47,384	114,018	14,807	19,250	-	34,057	148,075
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
Less: expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	(785,753)	(785,753)	(785,753)
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

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

LAMDBA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 476,870	\$ 355,433
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	154,931	148,075
Contributions permanently restricted	(125,000)	(17,988)
Loss on disposition of property and equipment	1,135	116
Change in value of gift annuities	71,966	18,865
Change in value of beneficial interest in trusts	131,223	129,593
Change in discount on bequest receivable	-	(11,250)
Net realized and unrealized gain on investments and gift annuities	(275,269)	(31,152)
Deferred rent	38,509	11,301
Bad debt expense	71,858	11,229
	546,223	614,222
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	856,604	(1,062,299)
Grants receivable - foundations and corporations	(304,500)	199,500
Bequest receivable	1,046,239	751,314
Prepaid expenses and other assets	706,001	(698,066)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	42,302	102,342
Accrued payroll and vacation	(85,327)	12,929
Deferred income	88,064	(7,250)
	2,895,606	(87,308)
Net Cash Provided by (Used in) Operating Activities	2,895,606	(87,308)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	35,360,792	18,988,499
Purchase of investments	(37,335,791)	(18,692,310)
Purchase of property and equipment and leasehold improvements	(456,875)	(12,157)
	(2,431,874)	284,032
Net Cash (Used in) Provided by Investing Activities	(2,431,874)	284,032
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities and trusts	(137,326)	(133,034)
Contributions permanently restricted	125,000	17,988
Proceeds from issuance of annuities	134,499	225,770
	122,173	110,724
Net Cash Provided by Financing Activities	122,173	110,724
NET INCREASE IN CASH	585,905	307,448
Cash - beginning of year	1,368,730	1,061,282
CASH - END OF YEAR	\$ 1,954,635	\$ 1,368,730

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Lambda Legal Defense and Education Fund, Inc. (“Lambda Legal”) is a national organization working to achieve full recognition of the civil rights of lesbians, gay men, bisexuals, transgender people and everyone 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 their use. 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 donated goods at their fair value on the date of receipt and records donated services that meet the criteria for recognition. A significant portion of the donated services received are services provided free of charge to Lambda legal by lawyers supervised or guided by Lambda legal staff. Donated services are estimated at \$4,187,975 and \$4,418,921 for the years ended October 31, 2016 and 2015, respectively, and are shown as both income and expense in the accompanying financial statements

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Lambda Legal has a charitable gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar periodic payment 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 revenue 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 statements of activities.

Lambda Legal's entire gift annuity program recorded an asset amounting to \$2,249,892 and \$2,131,083 and a liability of \$1,177,680 and \$1,108,541 as of October 31, 2016 and 2015, respectively. Contribution revenue amounted to \$78,417 and \$146,293 for the years ended October 31, 2016 and 2015, respectively, and is included in the accompanying statements of activities.

- H. Legacies and bequests are recognized as revenue when Lambda Legal is notified that actual or potential 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.
- 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 unless specified otherwise in the trust documents.

- J. Attorneys' fees are amounts awarded by a court when Lambda Legal's clients prevail in a case or amounts paid by opposing parties as part of the settlement of litigation in which attorneys' fees could be awarded that compensate Lambda Legal for time spent representing its clients and can include reimbursement of actual expenses incurred by Lambda Legal in connection with such legal representation.
- K. Pledges and grants are recorded as revenue when the pledge or grant is made. Pledges and grants receivable due in more than one year are discounted to net present value unless the amount is immaterial. Pledges and grants receivable are all scheduled to be collected by October 31, 2017. 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 determined that an allowance of approximately \$26,000 and \$25,000 was necessary as of October 31, 2016 and 2015, respectively, for pledges receivable and that 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. Lambda Legal records 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. In accordance with U.S. GAAP, Lambda Legal 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. This straight-lining of rent expense resulted in an increase in occupancy expenses of \$38,509 and \$11,301 for the years ended October 31, 2016 and 2015, respectively. The cumulative effect of these adjustments is reflected as deferred rent in the accompanying statements of financial position.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- N. The preparation of financial statements in accordance 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. 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 11.
- P. 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.
- Q. The costs of providing program and supporting services of Lambda Legal have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the program and supporting services benefited.

NOTE 3 – BEQUESTS RECEIVABLE

Bequests receivable consisted primarily of a generous bequest from the Estate of Ric Weiland, which was fully collected during the year ended October 31, 2016. As of October 31, 2016 and 2015, the bequest receivable associated with this contribution amounted to approximately 0% and 42%, respectively, of total receivables. Equal quarterly disbursements of the Weiland Estate commenced in March of 2008. During the years ended October 31, 2009, 2015, and 2016, Lambda Legal was notified of additional distributions.

As of October 31, 2016 and 2015, bequests receivable are scheduled to be received as follows:

	<u>2016</u>	<u>2015</u>
Amount due in less than one year	\$ <u>40,000</u>	\$ <u>1,086,239</u>

NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 1,024,344	\$ 5,180,308
Common stock	2,522,540	22,604
Mutual funds – equities	3,668,938	5,341,548
Mutual funds – fixed income	2,145,514	1,726,671
Certificates of deposit	2,978,866	-
U.S. government bonds	1,155,721	-
Corporate bonds	<u>906,667</u>	<u>-</u>
	<u>\$ 14,402,590</u>	<u>\$ 12,271,131</u>

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES (Continued)

Assets held for gift annuities consist of the following as of October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 249,267	\$ 149,974
Common stock	1,029,790	801,053
U.S. government bonds	365,225	624,226
Corporate bonds	<u>605,610</u>	<u>555,830</u>
	<u>\$ 2,249,892</u>	<u>\$ 2,131,083</u>

Investment activity for investments held consists of the following for the years ended October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 226,976	\$ 168,213
Unrealized (loss) gain on investments	(841,929)	2,225
Realized gain on investment sales	<u>1,119,950</u>	<u>43,203</u>
	<u>\$ 504,997</u>	<u>\$ 213,641</u>

Investment activity for assets held for gift annuities consists of the following for the years ended October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 59,824	\$ 50,084
Unrealized loss on investments	(109,688)	(18,398)
Realized gain on investment sales	<u>106,936</u>	<u>4,122</u>
	<u>\$ 57,072</u>	<u>\$ 35,808</u>
Total investment activity	<u>\$ 562,069</u>	<u>\$ 249,449</u>

Lambda Legal incurred investment management fees of \$88,442 and \$90,987 during the years ended October 31, 2016 and 2015, respectively. The fees are reflected as credit card and bank charges in the accompanying statements of functional expenses.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 768,084	\$ 752,027	3-5 years
Leasehold improvements	798,304	629,786	5-15 years
Construction in progress (see below)	<u>117,876</u>	<u>-</u>	
Total cost	1,684,264	1,381,813	
Less: accumulated depreciation and amortization	<u>(698,975)</u>	<u>(697,333)</u>	
Net book value	<u>\$ 985,289</u>	<u>\$ 684,480</u>	

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense amounted to \$154,931 and \$148,075 for the years ended October 31, 2016 and 2015, respectively. During the year ended October 31, 2016, Lambda Legal disposed of property and equipment totaling \$154,424 and having a net book value of \$1,135. This resulted in a loss on disposal amounting to \$1,135. 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.

The construction in progress relates to renovations at Lambda Legal offices. The cost to complete the project is approximately \$169,000, which is expected to be completed in 2017.

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 when approved by the Board of Directors. For each of the years ended October 31, 2016 and 2015, Lambda Legal contributed 10% of the participating employees' salaries, which amounted to approximately \$690,000 and \$683,000, 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, 2016:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 1,082,000	\$ 28,000	\$ 1,110,000
2018	1,122,000	18,000	1,140,000
2019	1,145,000	-	1,145,000
2020	1,025,000	-	1,025,000
2021	999,000	-	999,000
Thereafter	<u>4,429,000</u>	<u>-</u>	<u>4,429,000</u>
	<u>\$ 9,802,000</u>	<u>\$ 46,000</u>	<u>\$ 9,848,000</u>

Rent expense amounted to approximately \$1,057,000 and \$1,038,000 for the years ended October 31, 2016 and 2015, respectively. Such amounts are included in occupancy expense in the accompanying statements of functional expenses.

Other revenue in the accompanying statement of activities includes rental income from subleases amounting to \$7,318 and \$9,066 for the years ended October 31, 2016 and 2015, respectively.

- B. In January 2016, Lambda Legal established a revolving line of credit with a bank with a maximum borrowing amount of \$2,500,000. The interest rate charged by the bank is equal to the London Inter-Bank Offered Rate ("LIBOR") plus a spread which the bank may change with 30 days' notice. Lambda Legal can also request advances based on the Fixed Rate Advance Index or the Term Advance Index, subject to the bank's approval. The line of credit is secured by Lambda Legal's investments. During the year ended October 31, 2016, there were no borrowings. As of March 1, 2017, there was \$0 outstanding.

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

Temporarily restricted net assets consist of the following as of October 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 1,775,472	\$ 3,902,974
Purpose restrictions	1,835,935	73,920
Unappropriated earnings from permanently restricted fund	<u>72,783</u>	<u>69,036</u>
	<u>\$ 3,684,190</u>	<u>\$ 4,045,930</u>

Net assets were released from restrictions during the years ended October 31, 2016 and 2015, by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

	<u>2016</u>	<u>2015</u>
Marriage	\$ 136,340	\$ 212,308
Regional Offices	346,229	233,054
Fair Courts	250,415	250,000
Marketing	205,920	571,080
Youth	5,300	78,500
Other	95,050	46,081
Time restrictions lifted	<u>2,541,578</u>	<u>2,014,702</u>
	<u>\$ 3,580,832</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, 2016 and 2015.

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.

During the year ended October 31, 2016, the Board designated approximately \$540,000 to Lambda Legal's endowment fund.

Changes in endowment net assets for year ended October 31, 2016, are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
Investment Activity:				
Unrealized and realized gain on investments	\$ 1,390	\$ 3,747	\$ -	\$ 5,137
Contributions or designations received	<u>541,027</u>	<u>-</u>	<u>125,000</u>	<u>666,027</u>
Change in endowment net assets	542,417	3,747	125,000	671,164
Endowment net assets, beginning of year	<u>-</u>	<u>69,036</u>	<u>298,090</u>	<u>367,126</u>
Endowment net assets, end of year	<u>\$ 542,417</u>	<u>\$ 72,783</u>	<u>\$ 423,090</u>	<u>\$ 1,038,290</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

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	62,233	280,102	342,335
Endowment net assets, end of year	<u>\$ 69,036</u>	<u>\$ 298,090</u>	<u>\$ 367,126</u>

As of October 31, 2016 and 2015, endowment net assets of \$1,038,290 and \$367,126 are included with investments on the accompanying statements of financial position.

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. Lambda Legal had no such deficiencies in its endowment funds as of October 31, 2016 and 2015.

NOTE 9 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$445,850 and \$321,998 (other than donated services) for informational materials and activities that were included in fundraising appeals during the years ended October 31, 2016 and 2015, respectively. Of these costs, \$202,275 and \$102,849 were allocated to program expenses and \$243,575 and \$219,149 were allocated to fundraising for the years ended October 31, 2016 and 2015, respectively.

NOTE 10 – 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, 2016 and 2015, there was approximately \$2,118,000 and \$1,209,000, respectively, of cash held by banks that exceeded FDIC limits. Such excess includes outstanding checks. As of October 31, 2016 and 2015, cash and cash equivalents included in Lambda Legal's investment accounts in excess of SIPC insurance limits amounted to approximately \$890,000 and \$4,798,000, respectively.

NOTE 11 – 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.

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.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

Investments in money market funds, common stock, and U.S. government bonds 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 bonds and certificates of deposit 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, 2016, 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 2016</u>
Investments:			
Money market funds	\$ 1,024,344	\$ -	\$ 1,024,344
Common stock	2,522,540	-	2,522,540
Mutual funds – equities	3,668,938	-	3,668,938
Mutual funds – fixed income	2,145,514	-	2,145,514
Certificates of deposit	-	2,978,866	2,978,866
U.S. government bonds	1,155,721	-	1,155,721
Corporate bonds	<u>-</u>	<u>906,667</u>	<u>906,667</u>
Total investments	<u>10,517,057</u>	<u>3,885,533</u>	<u>14,402,590</u>
Assets held for gift annuities:			
Money market funds	249,267	-	249,267
Common stock – equities	1,029,790	-	1,029,790
Fixed income – U.S. government bonds	365,225	-	365,225
Fixed income – corporate bonds	<u>-</u>	<u>605,610</u>	<u>605,610</u>
Total assets held for gift annuities	<u>1,644,282</u>	<u>605,610</u>	<u>2,249,892</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 12,161,339</u>	<u>\$ 4,491,143</u>	<u>\$ 16,652,482</u>

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
Common stock – equities	22,604	-	22,604
Mutual funds – equities	5,341,548	-	5,341,548
Mutual funds – fixed income	<u>1,726,671</u>	<u>-</u>	<u>1,726,671</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
Common stock	801,053	-	801,053
U.S. government bonds	624,226	-	624,226
Corporate bonds	<u>-</u>	<u>555,830</u>	<u>555,830</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.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

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, 2016 and 2015, there were no transfers.

NOTE 12 – BENEFICIAL INTEREST IN TRUSTS

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

- 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.
- 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.
- 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.
- A Charitable Remainder UniTrust from which a beneficiary is currently receiving income quarterly. The trust terminated subsequent to October 31, 2016 and Lambda Legal expects to receive 20% of the balance of the trust in 2017.
- 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 13 — SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through March 1, 2017, the date the financial statements were available to be issued.