



LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

Financial Statements
(Together with Independent Auditors' Report)

For the Year Ended October 31, 2010
(With Restated Comparative Totals For October 31, 2009)



LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

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

**FOR THE YEAR ENDED OCTOBER 31, 2010
(With Restated Comparative Totals for October 31, 2009)**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal") as of October 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Lambda Legal's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information before restatement discussed in the third paragraph has been derived from Lambda Legal's October 31, 2009 financial statements. In our report, dated February 16, 2010, we expressed an unqualified opinion on those financial statements before the restatement as discussed in Note 14.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 14 to the financial statements, subsequent to the issuance of the 2009 financial statements, management became aware of an understatement in the assets related to Lambda Legal's beneficial interest in trusts. Management determined that assets and temporarily restricted net assets were understated by approximately \$855,000 as of October 31, 2009. Accordingly, the asset and net asset balance as of October 31, 2009 were restated.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lambda Legal Defense and Education Fund, Inc. as of October 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 14 that were applied to restate the prior year summarized comparative information. In our opinion, such adjustments are appropriate and have been properly applied.

Marks Paneth & Shron LLP

New York, NY
February 15, 2011

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2010
(With Restated Comparative Totals for October 31, 2009)

	<u>2010</u>	<u>2009</u> <u>Restated</u>
ASSETS		
Cash (Note 12)	\$ 395,060	\$ 363,611
Pledges receivable, net - individuals (Note 2L)	108,460	40,970
Grants receivable - foundations and corporations (Note 2L)	305,000	100,000
Bequests receivable, net (Notes 2H and 4)	7,126,215	8,341,929
Prepaid expenses and other assets	409,814	377,991
Property and equipment, net (Notes 2D and 6)	173,332	128,417
Investments (Notes 2E, 5 and 13)	5,773,446	4,084,977
Assets held for gift annuities (Notes 2G, 5 and 13)	1,170,502	1,093,241
Beneficial interest in trusts (Note 14)	<u>907,282</u>	<u>855,087</u>
TOTAL ASSETS	\$ 16,369,111	\$ 15,386,223
LIABILITIES		
Accounts payable and accrued expenses (Note 2J)	\$ 465,634	\$ 443,891
Accrued payroll and vacation	369,876	348,022
Deferred income (Note 2K)	3,045	4,680
Deferred rent (Note 2N)	57,972	30,422
Liabilities under gift annuities (Notes 2G and 13)	<u>692,881</u>	<u>711,821</u>
TOTAL LIABILITIES	<u>1,589,408</u>	<u>1,538,836</u>
COMMITMENTS (Note 8)		
NET ASSETS (Note 2C)		
Unrestricted	6,050,419	4,225,770
Temporarily restricted (Notes 9 and 14)	8,449,182	9,341,515
Permanently restricted	<u>280,102</u>	<u>280,102</u>
TOTAL NET ASSETS	<u>14,779,703</u>	<u>13,847,387</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>16,369,111</u>	\$ <u>15,386,223</u>

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, 2010
(With Restated Comparative Totals for October 31, 2009)

	For the Year Ended October 31, 2010				Total 2009 Restated
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	
PUBLIC SUPPORT AND REVENUE:					
Special events revenue	\$ 3,362,038	\$ 137,265	\$ -	\$ 3,499,303	\$ 3,444,442
Less: direct special event expenses	(531,882)	-	-	(531,882)	(531,293)
Net revenues from special events	2,830,156	137,265	-	2,967,421	2,913,149
Grants from foundations and corporations (Note 2B)	1,106,580	782,470	-	1,889,050	1,756,794
Contributions and memberships (Note 2B)	4,308,940	81,185	-	4,390,125	4,840,986
Bequests (Note 2H)	2,024,083	229,622	-	2,253,705	1,613,494
Donated services (Notes 2F and 10)	5,847,162	-	-	5,847,162	5,040,852
Attorney fees (Note 2K)	43,682	-	-	43,682	352,518
Revenue under gift annuities (Note 2G)	33,513	-	-	33,513	92,461
Investment activity (Note 5)	127,895	-	-	127,895	197,950
Change in value of gift annuities (Note 2G)	(8,656)	-	-	(8,656)	(27,406)
Change in value of beneficial interest in trusts (Note 14)	-	52,195	-	52,195	-
Other revenue (Note 8)	29,377	-	-	29,377	29,450
Net assets released from restrictions (Note 9)	2,175,070	(2,175,070)	-	-	-
	18,517,802	(892,333)	-	17,625,469	16,810,248
TOTAL PUBLIC SUPPORT AND REVENUE					
EXPENSES:					
Program Services:					
Legal	9,298,781	-	-	9,298,781	8,431,888
Educational	4,137,357	-	-	4,137,357	4,336,539
Total program services	13,436,138	-	-	13,436,138	12,768,427
Supporting Services:					
Management and general	1,252,272	-	-	1,252,272	1,066,262
Fundraising	1,802,689	-	-	1,802,689	1,635,938
Special events	202,054	-	-	202,054	160,964
Total supporting services	3,257,015	-	-	3,257,015	2,863,164
TOTAL EXPENSES	16,693,153	-	-	16,693,153	15,631,591
CHANGE IN NET ASSETS	1,824,649	(892,333)	-	932,316	1,178,657
Net assets - beginning of year, as previously reported	4,225,770	9,341,515	280,102	13,847,387	11,813,643
Recognition of Beneficial Interest in Trusts (Note 14)	-	-	-	-	855,087
Net assets - beginning of year, as restated	4,225,770	9,341,515	280,102	13,847,387	12,668,730
NET ASSETS - END OF YEAR	\$ 6,050,419	\$ 8,449,182	\$ 280,102	\$ 14,779,703	\$ 13,847,387

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, 2010
(With Comparative Totals for October 31, 2009)

	For the Year Ended October 31, 2010						Total 2009	
	Program Services			Supporting Services				
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2010
Salaries	\$ 2,222,846	\$ 2,051,858	\$ 4,274,704	\$ 626,957	\$ 797,945	\$ -	\$ 1,424,902	\$ 5,699,606
Payroll taxes and employee benefits (Note 7)	699,641	645,820	1,345,461	197,336	251,153	-	448,489	1,793,950
Total Salaries and Related Costs	2,922,487	2,697,678	5,620,165	824,293	1,049,098	-	1,873,391	7,493,556
Occupancy (Note 8)	294,334	279,617	573,951	73,583	88,300	-	161,883	735,834
Professional services	8,359	21,275	29,634	59,672	96,084	93,161	248,917	278,551
Travel and meetings	90,806	46,397	137,203	17,199	89,137	59,984	166,320	303,523
Office supplies	32,294	30,679	62,973	8,076	9,688	-	17,764	80,737
Insurance	35,929	34,133	70,062	8,982	10,779	-	19,761	89,823
Equipment rental and repairs	21,906	20,811	42,717	5,477	6,572	-	12,049	54,766
Telecommunications	57,182	54,323	111,505	14,296	17,155	-	31,451	142,956
Dues and subscriptions	21,897	6,645	28,542	2,880	3,506	-	6,386	34,928
Credit card and bank charges (Note 5)	-	-	-	115,927	-	-	115,927	115,927
Donated services (Notes 2F and 10)	5,631,764	95,649	5,727,413	91,596	28,153	-	119,749	5,847,162
Postage	23,906	22,710	46,616	2,599	24,049	12,292	38,940	85,556
Printing and outreach	6,763	795,466	802,229	3,186	368,075	36,617	407,878	1,210,107
Recruitment and training	6,194	4,672	10,866	2,224	3,471	-	5,695	16,561
Direct case expenses	116,221	-	116,221	-	-	-	-	116,221
Direct special event expenses	-	-	-	-	-	-	-	-
Bad debt	-	-	-	15,100	-	531,882	531,882	531,882
Depreciation and amortization	28,739	27,302	56,041	7,182	8,622	-	15,804	71,845
Subtotal	9,298,781	4,137,357	13,436,138	1,252,272	1,802,669	733,936	3,788,897	17,225,035
Less: expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	(531,882)	(531,882)	(531,882)
TOTAL EXPENSES	\$ 9,298,781	\$ 4,137,357	\$ 13,436,138	\$ 1,252,272	\$ 1,802,669	\$ 202,054	\$ 3,257,015	\$ 16,693,153
								\$ 5,860,974
								1,523,131

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, 2010
(With Comparative Totals for October 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 932,316	\$ 1,178,657
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	71,845	73,521
Loss on disposition of property and equipment	-	720
Change in value of gift annuities	8,656	27,406
Change in value of beneficial interest in trusts	(52,195)	-
Change in discount on bequest receivable	221,036	231,976
Net realized and unrealized gain on investments and gift annuities	(71,211)	(124,662)
Donated investments	(238,376)	(237,264)
Donated property and equipment	(61,165)	-
Contributions restricted for investment in endowment	-	(46,920)
Bad debt expense	15,100	2,486
	<u>826,006</u>	<u>1,105,920</u>
Subtotal	826,006	1,105,920
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	(82,590)	76,850
Grants receivable - foundations and corporations	(205,000)	(100,000)
Bequest receivable	994,678	610,221
Prepaid expenses and other assets	(31,823)	(160,792)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	21,743	84,766
Accrued payroll and vacation	21,854	25,037
Deferred income	(1,635)	1,860
Deferred rent	27,550	(15,211)
	<u>1,570,783</u>	<u>1,628,651</u>
Net Cash Provided by Operating Activities	<u>1,570,783</u>	<u>1,628,651</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	3,778,582	2,519,946
Purchase of investments	(5,234,725)	(4,110,419)
Purchase of property and equipment	(55,595)	(21,535)
	<u>(1,511,738)</u>	<u>(1,612,008)</u>
Net Cash Used by Investing Activities	<u>(1,511,738)</u>	<u>(1,612,008)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities and trusts	(74,083)	(66,249)
Contributions restricted from investment in endowment	-	46,920
Proceeds from issuance of annuities	46,487	147,434
	<u>(27,596)</u>	<u>128,105</u>
Net Cash (Used) Provided by Financing Activities	<u>(27,596)</u>	<u>128,105</u>
NET INCREASE IN CASH	31,449	144,748
Cash - beginning of year	<u>363,611</u>	<u>218,863</u>
CASH - END OF YEAR	<u>\$ 395,060</u>	<u>\$ 363,611</u>

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

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. When such stipulations end or are fulfilled, 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, which are generally determined by quoted market prices. 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 \$5,847,162 and \$5,040,852 for the years ended October 31, 2010 and 2009, respectively, and are reflected as donated services as both income and expense in the accompanying financial statements.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

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 was the recipient of six deferred gift annuities. The first deferred gift annuity, \$20,000, was received during the year ended October 31, 2005. Commencing in September 2015, Lambda Legal will make annual payments of \$1,940 until the donor's death. If the donor dies before September 2015, Lambda Legal is released from all obligations under this agreement. The second deferred gift annuity, \$10,361, was received during the year ended October 31, 2007. Commencing in October 2011, Lambda Legal will make annual payments of \$694 until the donor's death. If the donor dies before October 2011, Lambda Legal is released from all obligations under this agreement. The third deferred gift annuity, \$10,116, was received during the year ended October 31, 2009. Commencing in October 2015, Lambda Legal will make annual payments of \$648 until the donor's death, and thereafter to a beneficiary until his death. If both the donor and the beneficiary die before October 1, 2015, Lambda Legal is released from all obligations under this agreement. The fourth deferred gift annuity, \$50,000, was received during the year ended October 31, 2009. Commencing in December 2014, Lambda Legal will make annual payments of \$3,300 until the donor's death. If the donor dies before December 31, 2014, Lambda Legal is released from all obligations under this agreement. The fifth deferred gift annuity, \$10,000, was received during the year ended October 31, 2009. Commencing in October 2013, Lambda Legal will make annual payments of \$650 until the donor's death and thereafter to a beneficiary until his death. If both the donor and the beneficiary die before October 1, 2013, Lambda Legal is released from all obligations under this agreement. The sixth deferred gift annuity, \$9,779, was received during the year ended October 31, 2009. Commencing in April 2013, Lambda Legal will make annual payments of \$626 until the donor's death and thereafter to a beneficiary until his death. If both the donor and the beneficiary die before April 1, 2013, Lambda Legal is released from all obligations under this agreement.

Lambda Legal's entire gift annuity program has a recorded asset amounting to \$1,170,502 and a liability of \$692,881 as of October 31, 2010. Contribution income of \$33,513 and \$92,461 for the years ended October 31, 2010 and 2009, respectively, 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 free 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 4.
- 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 DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

- J. During the year ending October 31, 2010, Lambda Legal received cash as a fiscal agent that it held on behalf of an organization. The contract expired in August 2010 and was not renewed. All funds held were redirected as per the terms of the contract and therefore there is no outstanding liability as of October 31, 2010.
- K. 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.
- L. 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 present value unless the value is immaterial. Pledges and grants receivable are all scheduled to be collected in the next fiscal year. 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 \$29,000 was necessary as of October 31, 2010 and 2009, respectively, for pledges and no allowance was necessary for grants.
- M. Lambda Legal also receives cash in advance of special events that are 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.
- N. Lambda Legal leases its New York City office, whereby the landlord provided a free rent period of 15 months. Lambda Legal reflected a liability for this free rent period that it amortizes on a straight-line basis over the life of the lease, which expires in 2011. For the year ended October 31, 2010, Lambda Legal recorded an adjustment to rent expense to reflect its straight-lining policy that amounted to \$15,211.

During the year ended October 31, 2010, Lambda Legal entered into operating leases for real property and software expiring in 2015. For the year ended October 31, 2010, 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 term of the leases which amounted to \$18,249 and \$24,512 and recorded such amount as an increase in occupancy expense and direct case expense, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying statements of financial position.

- O. 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 and disclosures 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.
- P. The October 31, 2010 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, 2009. As a result, the October 31, 2009 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such October 31, 2009 information should be read in conjunction with Lambda Legal's financial statements for the year ended October 31, 2009, from which the summarized information was derived.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Q. 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 13.
- R. Effective November 1, 2009 Lambda Legal adopted the provisions of FASB Accounting Standards Codification (“ASC”) 740, which provides standards for establishing and classifying any uncertain tax positions. The adoption of ASC 740 did not have an effect on Lambda Legal’s financial position as of November 1, 2009 or Lambda Legal’s change in net assets and cash flows for the year ended October 31, 2010. Lambda Legal is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2007.
- S. Management has evaluated events subsequent to the date of the statement of financial position through February 15, 2011, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through February 15, 2011 that would require adjustment or disclosure in the financial statements.

NOTE 3 – CONDITIONAL PLEDGES

Lambda Legal secured a \$50,000 conditional pledge during the year ended October 31, 2010. Lambda Legal fulfilled the condition and received the full amount subsequent to October 31, 2010.

NOTE 4 – BEQUESTS RECEIVABLE

Bequests receivable consist primarily of a generous bequest from the Estate of Ric Weiland. As of October 31, 2010, the net bequest receivable associated with this contribution amounted to approximately 94% 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. During the year ended October 31, 2009, Lambda Legal was notified of an additional distribution to be made over the same period. As of October 31, 2010, bequests receivable are scheduled to be received as follows:

Amount due in less than one year	\$ 1,459,906	
Amount due in one to five years	6,155,387	
	7,615,293	
Less discount (at 3.23% and 2.56%)	(489,078)	
	\$ 7,126,215	

NOTE 5 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of October 31, 2010 and 2009:

	2010	2009
Money market funds	\$ 5,477,538	\$ 3,810,995
Corporate bond mutual fund	295,908	273,982
	\$ 5,773,446	\$ 4,084,977

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2010

NOTE 5 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES (Continued)

Assets held for gift annuities consist of the following as of October 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Money market funds	\$ 44,716	\$ 115,515
Equity mutual fund	409,581	98,176
Corporate bond mutual fund	183,996	716,278
Government and agency securities	<u>532,209</u>	<u>163,272</u>
	<u>\$ 1,170,502</u>	<u>\$ 1,093,241</u>

Investment activity consists of the following for the years ended October 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 19,358	\$ 31,936
Unrealized gain on investments	11,220	33,508
Realized gain (loss) on investment sales	<u>398</u>	<u>(3,014)</u>
	<u>\$ 30,976</u>	<u>\$ 62,430</u>

Assets held for gift annuities activity consists of the following for the years ended October 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 37,326	\$ 41,352
Unrealized (loss) gain on investments	(16,441)	94,168
Realized gain on investment sales	<u>76,034</u>	<u>-</u>
	<u>\$ 96,919</u>	<u>\$ 135,520</u>
Total activity of investments and assets held for gift annuities	<u>\$ 127,895</u>	<u>\$ 197,950</u>

Lambda Legal incurred investment management fees of \$11,538 and \$12,254 during the years ended October 31, 2010 and 2009, respectively. The fees are reflected as credit card and bank charges in the accompanying statement of functional expenses.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of October 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 864,204	\$ 774,484	3-5 years
Leasehold improvements	<u>477,894</u>	<u>450,854</u>	5-15 years
Total cost	1,342,098	1,225,338	
Less: accumulated depreciation and amortization	<u>(1,168,766)</u>	<u>(1,096,921)</u>	
Net book value	<u>\$ 173,332</u>	<u>\$ 128,417</u>	

Depreciation and amortization expense amounted to \$71,845 and \$73,521 for the years ended October 31, 2010 and 2009, respectively. During the years ended October 31, 2010 and 2009, Lambda Legal wrote off fully depreciated assets in the amount of \$0 and \$63,117, respectively. In addition, during the year ended October 31, 2010, Lambda Legal received donated software valued at \$61,165.

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NOTE 7 – 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. During the years ended October 31, 2010 and 2009, Lambda Legal contributed on average 8% and 5%, respectively, of the participating employees' salaries, which amounted to approximately \$392,000 and \$237,000, respectively.

NOTE 8 – COMMITMENTS

Lambda Legal has lease agreements for the rental of its New York, Los Angeles, Chicago, Dallas and Atlanta offices.

Minimum annual rentals related to the above leases are as follows for years ended subsequent to October 31, 2010:

2011	\$ 635,427
2012	304,640
2013	178,312
2014	80,934
2015	<u>39,737</u>
	<u>\$ 1,239,050</u>

Rent expense amounted to approximately \$602,000 and \$593,000 for the years ended October 31, 2010 and 2009, respectively.

Other revenue in the accompanying statement of activities includes rental income from subleases amounting to \$14,620 for the years ended October 31, 2010 and 2009.

NOTE 9 – NET ASSETS

As of October 31, 2010 temporarily restricted net assets of \$8,449,182 are time restricted for future fiscal years.

Net assets were released from restrictions during the year ended October 31, 2010 by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

Family Protections	\$ 57,492
Web 2.0 Initiative	50,000
Federal Protections of LGBT Rights	100,470
Fair Courts	130,000
Marriage	65,050
HIV	83,605
Other	165,125
Period ended October 31, 2010	<u>1,523,328</u>
	<u>\$ 2,175,070</u>

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. NYPMIFA requires each institution have written investment and spending policies to ensure the entity operates in accordance with the new standards of prudent financial management. NYPMIFA deems that yearly spending of more than 7% of the endowment's market value creates a rebuttal presumption of imprudence. The spending will be based on the quarterly market value of the endowment, calculated over a period of not less than 5 years. NYPMIFA requires written notification to all existing endowment donors allowing them to indicate whether or not they will allow spending below the original gift amount.

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NOTE 9 – NET ASSETS (Continued)

Management of Lambda Legal has interpreted New York State nonprofit law as requiring the preservation of the historical dollar value of the original donor restricted endowment gift as of the gift date, absent explicit donor stipulations to the contrary. See Note 2C for how Lambda Legal maintains its net assets.

Changes in endowment net assets for year ended October 31, 2010:

	Permanently Restricted
Unrealized gain on investments	\$ 1,495
Portion of unrealized gain that is unrestricted	(1,495)
Change in endowment net assets	-
Endowment net assets, beginning of year	280,102
Endowment net assets, end of year	\$ 280,102

Endowment net assets of \$280,102 are included with investments in the statement of financial position for the year ended October 31, 2010.

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, whereby the fair market value of the donor restricted endowment fund was below the amount that is required to be retained permanently by \$1,408 and \$3,729 as of October 31, 2010 and 2009, respectively.

NOTE 10 – 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, 2010 and 2009 amounted to \$5,847,162 and \$5,040,852, respectively.

NOTE 11 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$491,997 (other than donated services) for informational materials and activities that were included in fundraising appeals. Of these costs, \$162,878 was allocated to program expenses and \$329,119 was allocated to fundraising.

NOTE 12 – CONCENTRATIONS

Financial instruments that potentially subject Lambda Legal to a concentration of credit risk include cash accounts with various New York financial institutions that exceeded FDIC insurance limits (\$250,000) by approximately \$138,000 and \$0, as of October 31, 2010 and 2009, respectively. Effective October 14, 2008, the basic limit on federal deposit insurance coverage was increased from \$100,000 to \$250,000 for interest-bearing accounts until December 31, 2013. Such coverage was unlimited for noninterest-bearing accounts through June 30, 2010, for participating banks, through the Transaction Account Guarantee Program ("TAGP"). Effective January 1, 2010, none of Lambda Legal's financial institutions opted out of the TAGP. The FDIC insurance limit was permanently increased to \$250,000 and, beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

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NOTE 13 – FAIR VALUE MEASUREMENTS

Financial assets and liabilities are carried at fair value at October 31, 2010 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 2010</u>
Investments:			
Money market funds	\$ 5,477,538	\$ -	\$ 5,477,538
Corporate bond mutual funds	<u>285,908</u>	<u>10,000</u>	<u>295,908</u>
Total investments	<u>5,763,446</u>	<u>10,000</u>	<u>5,773,446</u>
Assets held for gift annuities:			
Money market funds	44,716	-	44,716
Equity mutual funds	409,581	-	409,581
Corporate bond mutual funds	183,996	-	183,996
Government and agency securities	<u>532,209</u>	<u>-</u>	<u>532,209</u>
Total assets held for gift annuities	<u>1,170,502</u>	<u>-</u>	<u>1,170,502</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 6,933,948</u>	<u>\$ 10,000</u>	<u>\$ 6,943,948</u>
LIABILITIES CARRIED AT FAIR VALUE			
Liabilities under gift annuities	<u>\$ -</u>	<u>\$ 692,881</u>	<u>\$ 692,881</u>
TOTAL LIABILITIES AT FAIR VALUE	<u>\$ -</u>	<u>\$ 692,881</u>	<u>\$ 692,881</u>

Financial assets and liabilities are carried at fair value at October 31, 2009 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 2009</u>
Investments:			
Money market funds	\$ 3,810,995	\$ -	\$ 3,810,995
Corporate bond mutual funds	<u>273,982</u>	<u>-</u>	<u>273,982</u>
Total investments	<u>4,084,977</u>	<u>-</u>	<u>4,084,977</u>
Assets held for gift annuities:			
Money market funds	115,515	-	115,515
Equity mutual funds	98,176	-	98,176
Corporate bond mutual funds	716,278	-	716,278
Government and agency securities	<u>163,272</u>	<u>-</u>	<u>163,272</u>
Total assets held for gift annuities	<u>1,093,241</u>	<u>-</u>	<u>1,093,241</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 5,178,218</u>	<u>\$ -</u>	<u>\$ 5,178,218</u>
LIABILITIES CARRIED AT FAIR VALUE			
Liabilities under gift annuities	<u>\$ -</u>	<u>\$ 711,821</u>	<u>\$ 711,821</u>
TOTAL LIABILITIES AT FAIR VALUE	<u>\$ -</u>	<u>\$ 711,821</u>	<u>\$ 711,821</u>

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NOTE 14 – BENEFICIAL INTERESTS IN TRUSTS

Lambda Legal has been named a beneficiary in charitable trusts, four 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 Annuity Trust from which a beneficiary is currently receiving 8.5% of the initial net-fair market value of the assets that passed into trust as finally determined for federal tax purposes. Subsequent to this beneficiary passing, Lambda is named to receive 33.3% of the balance of the trust. The third 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 is named to receive 100% of the balance of the trust. The fourth trust is a Charitable Remainder Trust from which beneficiaries are currently receiving income earned quarterly during their lifetime. Subsequent to all beneficiaries passing, Lambda is named to receive 25% of the balance of the trust.

Lambda Legal has been notified by various trusts that they are named as a beneficiary. Subsequent to the issuance of Lambda Legal's 2009 financial statements, management became aware that an amount of an asset related to the present value of the beneficial interest in the trusts was not recorded. As a result, an asset was established and temporarily restricted net assets were restated as of October 31, 2009, which is the first period in which complete information was available.

<u>Statement of Financial Position</u>	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Difference</u>
Beneficial interest in trusts	\$ -	\$ 855,087	\$ 855,087
Temporarily restricted net assets	8,486,428	9,341,515	(855,087)