



Financial Statements
(Together with Independent Auditors' Report)

14-Month Period Ended December 31, 2017 and
Year Ended October 31, 2016

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)

14-MONTH PERIOD ENDED DECEMBER 31, 2017 AND
YEAR ENDED OCTOBER 31, 2016

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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 Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal"), which comprise the statements of financial position as of December 31, 2017 and October 31, 2016, and the related statements of activities, functional expenses and cash flows for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 December 31, 2017 and October 31, 2016, and the changes in its net assets and its cash flows for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on page 18 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Marks Paneth LLP

New York, NY
June 13, 2018

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND OCTOBER 31, 2016

	2017	2016
ASSETS		
Cash (Note 9)	\$ 2,370,394	\$ 1,954,635
Pledges receivable, net - individuals (Notes 2K and 12)	894,509	524,351
Grants receivable - foundations and corporations (Note 2K)	780,000	360,000
Bequests receivable (Note 2H)	-	40,000
Prepaid expenses and other assets	690,258	845,979
Investments (Notes 2E, 2O, 3, 9 and 10)	12,496,906	14,402,590
Assets held for gift annuities (Notes 2G, 3 and 10)	2,399,264	2,249,892
Beneficial interest in trusts (Note 11)	1,089,599	1,167,403
Property and equipment, net (Notes 2D and 4)	944,163	985,289
TOTAL ASSETS	\$ 21,665,093	\$ 22,530,139
LIABILITIES		
Accounts payable and accrued expenses	\$ 552,605	\$ 628,688
Accrued payroll and vacation	469,455	459,753
Deferred income (Note 2L)	62,502	100,009
Deferred rent (Note 2M)	795,974	835,349
Liabilities under gift annuities (Note 2G)	1,180,581	1,177,680
TOTAL LIABILITIES	3,061,117	3,201,479
COMMITMENTS AND CONTINGENCIES (Note 6)		
NET ASSETS (Note 2C)		
Unrestricted		
Invested in property and equipment	944,163	985,289
Board designated (Note 7)	635,620	542,417
Operations	13,344,725	13,693,674
Total unrestricted	14,924,508	15,221,380
Temporarily restricted (Note 7)	3,256,378	3,684,190
Permanently restricted (Note 7)	423,090	423,090
TOTAL NET ASSETS	18,603,976	19,328,660
TOTAL LIABILITIES AND NET ASSETS	\$ 21,665,093	\$ 22,530,139

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF ACTIVITIES
FOR THE 14-MONTH PERIOD ENDED DECEMBER 31, 2017 AND THE YEAR ENDED OCTOBER 31, 2016

	For the 14-Month Period Ended December 31, 2017			For the Year Ended October 31, 2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted
PUBLIC SUPPORT AND REVENUE:								
Special events revenue	\$ 4,136,884	\$ 1,320,599	\$ -	\$ 5,457,483	\$ 4,798,205	\$ 4,318,585	\$ 479,620	\$ -
Less: direct special event expenses	(884,848)	-	-	(884,848)	(862,316)	(862,316)	-	-
Net revenues from special events	3,252,036	1,320,599	-	4,572,635	3,935,889	3,456,269	479,620	-
Grants from foundations and corporations (Note 2B)	1,267,665	1,208,500	-	2,476,165	1,952,354	898,854	1,028,500	25,000
Contributions and memberships (Note 2B)	10,697,676	340,300	-	11,037,976	5,103,069	4,723,701	279,368	100,000
Bequests (Note 2H)	2,283,396	235,000	-	2,518,396	6,485,019	4,925,939	1,559,080	-
Donated legal services (Note 2F)	7,393,828	-	-	7,393,828	4,187,975	4,187,975	-	-
Attorney fees (Note 2J)	565,783	-	-	565,783	629,200	629,200	-	-
Contributions under gift annuities (Note 2G)	40,452	-	-	40,452	78,417	78,417	-	-
Investment activity (Note 3)	1,643,325	85,205	-	1,728,530	562,069	558,322	3,747	-
Change in value of gift annuities (Note 2G)	(133,141)	-	-	(133,141)	(71,966)	(71,966)	-	-
Change in value of beneficial interest in trusts (Note 11)	-	59,363	-	59,363	(131,223)	-	(131,223)	-
Other revenue (Note 6A)	8,264	-	-	8,264	25,937	25,937	-	-
Loss on disposal of property and equipment (Note 4)	-	-	-	-	(1,135)	(1,135)	-	-
Net assets released from restrictions (Note 7)	3,676,779	(3,676,779)	-	-	-	3,580,832	(3,580,832)	-
TOTAL PUBLIC SUPPORT AND REVENUE	30,696,063	(427,812)	-	30,268,251	22,755,605	22,992,345	(361,740)	125,000
EXPENSES: (Note 2Q)								
Program Services:								
Legal	15,868,587	-	-	15,868,587	10,407,716	10,407,716	-	-
Educational	6,572,875	-	-	6,572,875	6,029,662	6,029,662	-	-
Total program services	22,441,462	-	-	22,441,462	16,437,378	16,437,378	-	-
Supporting Services:								
Management and general	3,328,352	-	-	3,328,352	2,359,108	2,359,108	-	-
Fundraising	4,912,451	-	-	4,912,451	3,235,224	3,235,224	-	-
Special events	310,670	-	-	310,670	247,025	247,025	-	-
Total supporting services	8,551,473	-	-	8,551,473	5,841,357	5,841,357	-	-
TOTAL EXPENSES	30,992,935	-	-	30,992,935	22,278,735	22,278,735	-	-
CHANGE IN NET ASSETS	(296,872)	(427,812)	-	(724,684)	476,870	713,610	(361,740)	125,000
Net assets - beginning of year	15,221,380	3,684,190	423,090	19,328,660	18,851,790	14,507,770	4,045,930	298,090
NET ASSETS - END OF YEAR	\$ 14,924,508	\$ 3,256,378	\$ 423,090	\$ 18,603,976	\$ 19,328,660	\$ 15,221,380	\$ 3,684,190	\$ 423,090

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE 14-MONTH PERIOD ENDED DECEMBER 31, 2017
(With Comparative Totals For the Year Ended October 31, 2016)

	For the 14-Month Period Ended December 31, 2017								
	Program Services			Supporting Services					
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2017	Total 2016
Salaries	\$ 5,406,789	\$ 2,629,836	\$ 8,036,625	\$ 993,270	\$ 1,889,681	\$ -	\$ 2,882,951	\$ 10,919,576	\$ 8,306,418
Payroll taxes and employee benefits (Note 5)	2,151,343	1,046,403	3,197,746	395,219	751,897	-	1,147,116	4,344,862	3,649,421
Total Salaries and Related Costs	7,558,132	3,676,239	11,234,371	1,388,489	2,641,578	-	4,030,067	15,264,438	11,955,839
Donated legal services (Note 2F)	6,242,848	578,716	6,821,564	288,386	283,878	-	572,264	7,393,828	4,187,975
Printing and outreach	-	755,874	755,874	-	894,123	187,164	1,081,287	1,837,161	1,715,840
Occupancy (Note 6A)	740,105	359,984	1,100,089	135,963	258,668	-	394,631	1,494,720	1,289,239
Professional services	253	721,524	721,777	789,400	366,744	90,009	1,246,153	1,967,930	1,212,009
Travel and meetings	373,254	95,077	468,331	188,554	190,487	22,950	401,991	870,322	569,325
Office supplies	116,117	56,479	172,596	21,332	40,583	-	61,915	234,511	69,896
Insurance	52,610	25,589	78,199	9,665	18,387	-	28,052	106,251	90,674
Equipment rental and repairs	39,455	19,191	58,646	7,248	13,790	-	21,038	79,684	91,909
Telecommunications	203,402	98,934	302,336	37,367	71,089	-	108,456	410,792	235,401
Dues and subscriptions	73,645	35,821	109,466	13,525	25,739	-	39,264	148,730	55,465
Credit card and bank charges (Note 3)	-	-	-	310,385	-	-	310,385	310,385	212,643
Postage	84,893	41,292	126,185	15,596	29,670	10,547	55,813	181,998	114,877
Recruitment and training	99,224	48,262	147,486	18,228	34,679	-	52,907	200,393	48,777
Direct case expenses	161,513	-	161,513	-	-	-	-	161,513	202,077
Direct special event expenses	-	-	-	-	-	884,848	884,848	884,848	862,316
Bad debt	-	-	-	81,595	-	-	81,595	81,595	71,858
Depreciation and amortization (Note 4)	123,136	59,893	183,029	22,619	43,036	-	65,655	248,684	154,931
Subtotal	15,868,587	6,572,875	22,441,462	3,328,352	4,912,451	1,195,518	9,436,321	31,877,783	23,141,051
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(884,848)	(884,848)	(884,848)	(862,316)
TOTAL EXPENSES	\$ 15,868,587	\$ 6,572,875	\$ 22,441,462	\$ 3,328,352	\$ 4,912,451	\$ 310,670	\$ 8,551,473	\$ 30,992,935	\$ 22,278,735

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, 2016

	For the Year Ended October 31, 2016								
	Program Services			Supporting Services					Total 2016
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services		
Salaries	\$ 3,536,814	\$ 2,415,316	\$ 5,952,130	\$ 938,413	\$ 1,415,875	\$ -	\$ 2,354,288	\$ 8,306,418	
Payroll taxes and employee benefits (Note 5)	1,572,977	1,060,845	2,633,822	393,724	621,875	-	1,015,599	3,649,421	
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	
Donated legal services (Note 2F)	3,897,549	52,971	3,950,520	140,940	96,515	-	237,455	4,187,975	
Printing and outreach	-	1,054,082	1,054,082	-	564,667	97,091	661,758	1,715,840	
Occupancy (Note 6A)	567,265	399,664	966,929	116,032	206,278	-	322,310	1,289,239	
Professional services	39,075	557,705	596,780	374,320	130,589	110,320	615,229	1,212,009	
Travel and meetings	225,966	232,073	458,039	32,008	51,846	27,432	111,286	569,325	
Office supplies	28,616	20,161	48,777	10,714	10,405	-	21,119	69,896	
Insurance	39,896	28,109	68,005	8,161	14,508	-	22,669	90,674	
Equipment rental and repairs	40,440	28,492	68,932	8,272	14,705	-	22,977	91,909	
Telecommunications	110,576	69,978	180,554	19,518	35,329	-	54,847	235,401	
Dues and subscriptions	21,132	15,589	36,721	5,642	13,102	-	18,744	55,465	
Credit card and bank charges (Note 3)	-	-	-	212,643	-	-	212,643	212,643	
Postage	38,601	31,980	70,581	6,511	25,603	12,182	44,296	114,877	
Recruitment and training	18,563	14,668	33,231	6,409	9,137	-	15,546	48,777	
Direct case expenses	202,077	-	202,077	-	-	-	-	202,077	
Direct special event expenses	-	-	-	-	-	862,316	862,316	862,316	
Bad debt	-	-	-	71,858	-	-	71,858	71,858	
Depreciation and amortization (Note 4)	68,169	48,029	116,198	13,943	24,790	-	38,733	154,931	
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	
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(862,316)	(862,316)	(862,316)	
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	

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

LAMDBA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF CASH FLOWS
FOR THE 14-MONTH PERIOD ENDED DECEMBER 31, 2017
AND THE YEAR ENDED OCTOBER 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (724,684)	\$ 476,870
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	248,684	154,931
Contributions permanently restricted	-	(125,000)
Loss on disposition of property and equipment	-	1,135
Change in value of gift annuities	133,141	71,966
Change in value of beneficial interest in trusts	(59,363)	131,223
Net realized and unrealized gain on investments and gift annuities	(1,165,077)	(275,269)
Deferred rent	(39,375)	38,509
Bad debt expense	81,595	71,858
	<u>(1,525,079)</u>	<u>546,223</u>
Subtotal		
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	(451,753)	856,604
Grants receivable - foundations and corporations	(420,000)	(304,500)
Bequest receivable	40,000	1,046,239
Prepaid expenses and other assets	155,721	706,001
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(76,083)	42,302
Accrued payroll and vacation	9,702	(85,327)
Deferred income	(37,507)	88,064
	<u>(2,304,999)</u>	<u>2,895,606</u>
Net Cash (Used in) Provided by Operating Activities		
	<u>(2,304,999)</u>	<u>2,895,606</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	19,070,862	35,360,792
Purchase of investments	(16,149,473)	(37,335,791)
Purchase of property and equipment and leasehold improvements	(207,558)	(456,875)
	<u>2,713,831</u>	<u>(2,431,874)</u>
Net Cash Provided by (Used in) Investing Activities		
	<u>2,713,831</u>	<u>(2,431,874)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities and trusts	(184,788)	(137,326)
Contributions permanently restricted	-	125,000
Proceeds from trust	137,167	-
Proceeds from issuance of annuities	54,548	134,499
	<u>6,927</u>	<u>122,173</u>
Net Cash Provided by Financing Activities		
	<u>6,927</u>	<u>122,173</u>
NET INCREASE IN CASH	415,759	585,905
Cash - beginning of year	<u>1,954,635</u>	<u>1,368,730</u>
CASH - END OF YEAR	<u>\$ 2,370,394</u>	<u>\$ 1,954,635</u>

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

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 statements 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 statements of activities as net assets released from restrictions. In addition, earnings (not otherwise restricted by the donor) on permanently restricted assets are classified as temporarily restricted until appropriated by the Board for operations.
 - 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. Earnings (unless otherwise restricted by the donor) from such funds are included as temporarily restricted net assets until the Board appropriates such earnings.
- 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 \$7,393,828 and \$4,187,975 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, 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
DECEMBER 31, 2017 AND OCTOBER 31, 2016

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 \$2,399,264 and \$2,249,892 and a liability of \$1,180,581 and \$1,177,680 as of December 31, 2017 and October 31, 2016, respectively. Contribution revenue amounted to \$40,452 and \$78,417 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, 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. Lambda Legal bases its allowance for doubtful accounts on its historical loss experience considering the age of the receivables and other factors. 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 \$61,000 and \$26,000 was necessary as of December 31, 2017 and October 31, 2016, 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.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- M. 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 \$39,375 and \$38,509 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively. The cumulative effect of these adjustments is reflected as deferred rent in the accompanying statements of financial position.
- 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 10.
- 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 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of December 31, 2017 and October 31, 2016:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 514,603	\$ 1,024,344
Common stock	3,039,842	2,522,540
Mutual funds – equities	4,341,243	3,668,938
Mutual funds – fixed income	2,178,281	2,145,514
Certificates of deposit	247,545	2,978,866
U.S. government bonds	1,153,521	1,155,721
Corporate bonds	<u>1,021,871</u>	<u>906,667</u>
	<u>\$ 12,496,906</u>	<u>\$ 14,402,590</u>

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 December 31, 2017 and October 31, 2016:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 206,576	\$ 249,267
Common stock	1,246,428	1,029,790
U.S. government bonds	315,764	365,225
Corporate bonds	<u>630,496</u>	<u>605,610</u>
	<u>\$ 2,399,264</u>	<u>\$ 2,249,892</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 3 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES (Continued)

Investment activity for investments held consists of the following for the 14-month period ended December 31, 2017 and the year ended October 31, 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 501,528	\$ 226,976
Unrealized gain (loss) on investments	897,579	(841,929)
Realized gain on investment sales	<u>73,993</u>	<u>1,119,950</u>
	<u>1,473,100</u>	<u>504,997</u>

Investment activity for assets held for gift annuities consists of the following for the 14-month period ended December 31, 2017 and the year ended October 31, 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	61,925	59,824
Unrealized gain (loss) on investments	175,773	(109,688)
Realized gain on investment sales	<u>17,732</u>	<u>106,936</u>
	<u>255,430</u>	<u>57,072</u>
Total investment activity	<u>\$ 1,728,530</u>	<u>\$ 562,069</u>

Lambda Legal incurred investment management fees of \$91,545 and \$88,442 during the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively. The fees are reflected as credit card and bank charges in the accompanying statements of functional expenses.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2017 and October 31, 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 1,023,892	\$ 768,084	3-5 years
Leasehold improvements	860,196	798,304	5-15 years
Construction in progress (see below)	<u>7,734</u>	<u>117,876</u>	
Total cost	1,891,822	1,684,264	
Less: accumulated depreciation and amortization	<u>(947,659)</u>	<u>(698,975)</u>	
Net book value	<u>\$ 944,163</u>	<u>\$ 985,289</u>	

Depreciation and amortization expense amounted to \$248,684 and \$154,931 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively. For the 14-month period ended December 31, 2017, Lambda Legal did not dispose of any property and equipment. 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.

Construction in progress consists of minor office improvements that are expected to be completed in 2018.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – 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 the 14-month period ended December 31, 2017 and the year ended October 31, 2016, Lambda Legal's contributions amounted to approximately \$710,000 and \$690,000, respectively.

NOTE 6 – 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 December 31, 2017:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 1,136,000	\$ 10,000	\$ 1,146,000
2019	1,125,000	2,000	1,127,000
2020	1,026,000	-	1,026,000
2021	980,000	-	980,000
2022	896,000	-	896,000
Thereafter	<u>3,380,000</u>	<u>-</u>	<u>3,380,000</u>
	<u>\$ 8,543,000</u>	<u>\$ 12,000</u>	<u>\$ 8,555,000</u>

Rent expense amounted to approximately \$1,306,000 and \$1,057,000 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively. Such amounts are included in occupancy expense in the accompanying statements of functional expenses.

Other revenue in the accompanying statements of activities includes rental income from subleases amounting to \$5,502 and \$7,318 for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, 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 14-month period ended December 31, 2017 and the year ended October 31, 2016, there were no borrowings. As of June 13, 2018, there was \$0 outstanding.
- C. During the 14-month period ended December 31, 2017, Lambda Legal's employees voted to join a union. Lambda Legal is in the process of negotiating a collective bargaining agreement.

NOTE 7 – NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Time restrictions (see below)	\$ 2,102,069	\$ 1,775,472
Purpose restrictions	996,321	1,835,935
Unappropriated earnings from permanently restricted funds	<u>157,988</u>	<u>72,783</u>
	<u>\$ 3,256,378</u>	<u>\$ 3,684,190</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 7 – NET ASSETS (Continued)

	<u>2017</u>	<u>2016</u>
Time restrictions include:		
Beneficial interest in trusts	\$ 1,089,599	\$ 1,167,403
Pledges due greater than one year	350,000	-
Contributions received for future events	<u>662,470</u>	<u>608,069</u>
	<u>\$ 2,102,069</u>	<u>\$ 1,775,472</u>

Net assets were released from restrictions during the 14-month period ended December 31, 2017 and the year ended October 31, 2016, by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

	<u>2017</u>	<u>2016</u>
Regional Offices	\$ 1,400,078	\$ 346,229
Fair Courts	812,780	250,415
Law and Policy Project	205,000	-
DC Office	179,086	-
HIV Criminalization	115,000	50,000
Marriage	-	136,340
Marketing	-	205,920
Other	15,000	50,350
Time restrictions lifted	<u>949,835</u>	<u>2,541,578</u>
	<u>\$ 3,676,779</u>	<u>\$ 3,580,832</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 market value of its permanently restricted funds. The Board elected not to appropriate any endowment funds for expenditure during the 14-month period ended December 31, 2017 and the year ended October 31, 2016.

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 Board designated endowment fund.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 7 – NET ASSETS (Continued)

Changes in endowment net assets for year ended December 31, 2017, are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>
Investment Activity:				
Unrealized and realized gain on investments	\$ 93,203	\$ 85,205	\$ -	\$ 178,408
Change in endowment net assets	93,203	85,205	-	178,408
Endowment net assets, beginning of year	<u>542,417</u>	<u>72,783</u>	<u>423,090</u>	<u>1,038,290</u>
Endowment net assets, end of year	<u>\$ 635,620</u>	<u>\$ 157,988</u>	<u>\$ 423,090</u>	<u>\$ 1,216,698</u>

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	<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>

As of December 31, 2017 and October 31, 2016, endowment net assets of \$1,216,698 and \$1,038,290 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 discussed at Note 2C, deficiencies of this nature are reported in either restricted or unrestricted net assets. Lambda Legal had no such deficiencies in its donor-restricted endowment funds as of December 31, 2017 and October 31, 2016.

NOTE 8 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$453,514 and \$445,850 (other than donated services) for informational materials and activities that were included in fundraising appeals during the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively. Of these costs, \$104,254 and \$202,275 were allocated to program expenses and \$349,260 and \$243,575 were allocated to fundraising for the 14-month period ended December 31, 2017 and the year ended October 31, 2016, respectively.

NOTE 9 – CONCENTRATIONS

Cash and cash equivalents that potentially subject Lambda Legal to a concentration of credit risk includes cash accounts with one bank that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. The bank account is insured up to \$250,000 per depositor. As of December 31, 2017 and October 31, 2016, there was approximately \$1,310,000 and \$2,118,000, respectively, of cash held by the bank that exceeded FDIC limits. Such excess includes outstanding checks. As of December 31, 2017 and October 31, 2016, cash and cash equivalents included in Lambda Legal's investment accounts in excess of Securities Investor Protection Corporation ("SIPC") insurance limits amounted to approximately \$540,000 and \$890,000, respectively. SIPC insurance is private and not backed by the U.S. government.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 10 – 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.

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 December 31, 2017, 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 2017</u>
Investments:			
Money market funds	\$ 514,603	\$ -	\$ 514,603
Common stock	3,039,842	-	3,039,842
Mutual funds – equities	4,341,243	-	4,341,243
Mutual funds – fixed income	2,178,281	-	2,178,281
Certificates of deposit	-	247,545	247,545
U.S. government bonds	1,153,521	-	1,153,521
Corporate bonds	<u>-</u>	<u>1,021,871</u>	<u>1,021,871</u>
Total investments	<u>11,227,490</u>	<u>1,269,416</u>	<u>12,496,906</u>
Assets held for gift annuities:			
Money market funds	206,576	-	206,576
Common stock – equities	1,246,428	-	1,246,428
Fixed income – U.S. government bonds	315,764	-	315,764
Fixed income – corporate bonds	<u>-</u>	<u>630,496</u>	<u>630,496</u>
Total assets held for gift annuities	<u>1,768,768</u>	<u>630,496</u>	<u>2,399,264</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 12,996,258</u>	<u>\$ 1,899,912</u>	<u>\$ 14,896,170</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND OCTOBER 31, 2016

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

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>

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 14-month period ended December 31, 2017 and the year ended October 31, 2016, there were no transfers.

NOTE 11 – BENEFICIAL INTEREST IN TRUSTS

Lambda Legal has been named a beneficiary in charitable trusts, four 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 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.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 – PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31, 2017 and October 31, 2016:

	<u>2017</u>	<u>2016</u>
Collectible in:		
One year or less	\$ 605,181	\$ 550,779
One to five years	<u>350,000</u>	<u>-</u>
	955,181	550,779
Less: allowance for doubtful accounts	<u>(60,672)</u>	<u>(26,428)</u>
	<u>\$ 894,509</u>	<u>\$ 524,351</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through June 13, 2018, the date the financial statements were available to be issued.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
SUPPLEMENTAL SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2017, THE 2 MONTH PERIOD ENDED DECEMBER 31, 2017
AND THE YEAR ENDED OCTOBER 31, 2016

	Year Ended <u>10/31/2017</u>	2 Month Period Ended <u>12/31/2017</u>	14-Month Period Ended <u>12/31/2017</u>	Year Ended <u>10/31/2016</u>
PUBLIC SUPPORT AND REVENUE:				
Special events revenue	\$ 4,821,590	\$ 635,893	\$ 5,457,483	\$ 4,798,205
Less: direct special event expenses	(853,746)	(31,102)	(884,848)	(862,316)
Net revenues from special events	3,967,844	604,791	4,572,635	3,935,889
Grants from foundations and corporations	1,560,751	915,414	2,476,165	1,952,354
Contributions and memberships	8,132,608	2,905,368	11,037,976	5,103,069
Bequests	2,090,754	427,642	2,518,396	6,485,019
Donated goods and services	7,207,454	186,374	7,393,828	4,187,975
Attorney fees	565,783	-	565,783	629,200
Contributions under gift annuities	-	40,452	40,452	78,417
Investment activity	1,430,078	298,452	1,728,530	562,069
Change in value of gift annuities	(114,781)	(18,360)	(133,141)	(71,966)
Change in value of beneficial interest in trusts	51,557	7,806	59,363	(131,223)
Other revenue	8,264	-	8,264	25,937
Loss on disposal of property and equipment	-	-	-	(1,135)
TOTAL PUBLIC SUPPORT AND REVENUE	<u>24,900,312</u>	<u>5,367,939</u>	<u>30,268,251</u>	<u>22,755,605</u>
EXPENSES:				
Program Services:				
Legal	14,379,667	1,488,920	15,868,587	10,407,716
Educational	5,724,157	848,718	6,572,875	6,029,662
Total program services	<u>20,103,824</u>	<u>2,337,638</u>	<u>22,441,462</u>	<u>16,437,378</u>
Supporting Services:				
Management and general	2,740,893	587,459	3,328,352	2,359,108
Fundraising	4,276,389	636,062	4,912,451	3,235,224
Special events	311,676	(1,006)	310,670	247,025
Total supporting services	<u>7,328,958</u>	<u>1,222,515</u>	<u>8,551,473</u>	<u>5,841,357</u>
TOTAL EXPENSES	<u>27,432,782</u>	<u>3,560,153</u>	<u>30,992,935</u>	<u>22,278,735</u>
CHANGE IN NET ASSETS	(2,532,470)	1,807,786	(724,684)	476,870
Net assets - beginning of year	<u>19,328,660</u>	<u>16,796,190</u>	<u>19,328,660</u>	<u>18,851,790</u>
NET ASSETS - END OF YEAR	<u>\$ 16,796,190</u>	<u>\$ 18,603,976</u>	<u>\$ 18,603,976</u>	<u>\$ 19,328,660</u>

See independent auditors' report.