



**Financial Statements  
(Together with Independent Auditors' Report)**

**Years Ended December 31, 2019 and 2018**

**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 DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lambda Legal as of December 31, 2019 and 2018, 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.

*Marks Paneth LLP*

New York, NY  
July 1, 2020

**LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash (Note 10)	\$ 3,290,137	\$ 2,785,673
Pledges receivable, net - individuals (Notes 2K and 13)	770,527	553,252
Grants receivable - foundations and corporations (Notes 2K and Note 1)	323,167	289,000
Bequests receivable (Note 2H)	640,000	89,757
Prepaid expenses and other assets	722,994	573,139
Investments (Notes 2E, 2O, 4, 7B and 11)	8,752,681	10,314,690
Assets held for gift annuities (Notes 2G, 4 and 11)	2,373,571	2,321,698
Beneficial interest in trusts (Notes 2I and 12)	703,609	899,741
Property and equipment, net (Notes 2D and 5)	547,928	739,821
<b>TOTAL ASSETS</b>	<b>\$ 18,124,614</b>	<b>\$ 18,566,771</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 841,228	\$ 684,194
Accrued payroll and vacation	527,772	437,156
Deferred income (Note 2L)	113,335	27,751
Deferred rent (Note 2M)	673,367	738,875
Liabilities under gift annuities (Note 2G)	1,408,487	1,194,981
<b>TOTAL LIABILITIES</b>	<b>3,564,189</b>	<b>3,082,957</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>		
<b>NET ASSETS (Note 2C)</b>		
Without donor restrictions:		
Invested in property and equipment	547,928	739,821
Board designated (Note 8)	6,703,380	8,485,050
Operations	4,109,886	2,601,268
Total without donor restrictions	11,361,194	11,826,139
With donor restrictions (Note 8)	3,199,231	3,657,675
<b>TOTAL NET ASSETS</b>	<b>14,560,425</b>	<b>15,483,814</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,124,614</b>	<b>\$ 18,566,771</b>

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 DECEMBER 31, 2019 AND 2018**

	For the Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total 2019	Without Donor Restrictions	With Donor Restrictions	Total 2018
<b>OPERATING PUBLIC SUPPORT AND REVENUE:</b>						
Special events revenue	\$ 4,183,154	\$ 488,603	\$ 4,671,757	\$ 4,305,511	\$ 284,337	\$ 4,589,848
Less: direct special event expenses	<u>(745,890)</u>	<u>-</u>	<u>(745,890)</u>	<u>(782,967)</u>	<u>-</u>	<u>(782,967)</u>
Net revenues from special events	3,437,264	488,603	3,925,867	3,522,544	284,337	3,806,881
Grants from foundations and corporations (Note 2B)	1,201,308	740,500	1,941,808	806,589	174,000	980,589
Contributions and memberships (Note 2B)	6,804,668	7,575	6,812,243	6,704,976	1,130,014	7,834,990
Donated legal services (Note 2F)	8,079,646	-	8,079,646	6,992,474	-	6,992,474
Attorney fees (Note 2J)	393,991	-	393,991	94,517	-	94,517
Contributions under gift annuities (Note 2G)	170,782	-	170,782	70,456	-	70,456
Other revenue	106,581	-	106,581	9,443	-	9,443
Net assets released from restrictions (Note 8)	<u>2,102,092</u>	<u>(2,102,092)</u>	<u>-</u>	<u>2,087,003</u>	<u>(2,087,003)</u>	<u>-</u>
<b>TOTAL OPERATING PUBLIC SUPPORT AND REVENUE</b>	<u>22,296,332</u>	<u>(865,414)</u>	<u>21,430,918</u>	<u>20,288,002</u>	<u>(498,652)</u>	<u>19,789,350</u>
<b>OPERATING EXPENSES: (Note 2R)</b>						
Program Services:						
Legal	15,054,437	-	15,054,437	14,657,723	-	14,657,723
Educational	3,814,953	-	3,814,953	4,188,567	-	4,188,567
Total program services	<u>18,869,390</u>	<u>-</u>	<u>18,869,390</u>	<u>18,846,290</u>	<u>-</u>	<u>18,846,290</u>
Supporting Services:						
Management and general	3,065,339	-	3,065,339	2,441,943	-	2,441,943
Fundraising	4,500,458	-	4,500,458	4,082,387	-	4,082,387
Special events	419,546	-	419,546	400,808	-	400,808
Total supporting services	<u>7,985,343</u>	<u>-</u>	<u>7,985,343</u>	<u>6,925,138</u>	<u>-</u>	<u>6,925,138</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>26,854,733</u>	<u>-</u>	<u>26,854,733</u>	<u>25,771,428</u>	<u>-</u>	<u>25,771,428</u>
<b>DEFICIT OF OPERATING REVENUE AND SUPPORT OVER OPERATING EXPENSES</b>	<u>(4,558,401)</u>	<u>(865,414)</u>	<u>(5,423,815)</u>	<u>(5,483,426)</u>	<u>(498,652)</u>	<u>(5,982,078)</u>
<b>NON-OPERATING ACTIVITY (Note 2Q)</b>						
Bequests (Note 2H)	2,367,735	10,407	2,378,142	3,114,729	695,608	3,810,337
Investment activity (Note 4)	1,742,254	197,746	1,940,000	(621,168)	(28,891)	(650,059)
Change in value of gift annuities (Note 2G)	(16,533)	-	(16,533)	(108,504)	-	(108,504)
Change in value of beneficial interest in trusts	<u>-</u>	<u>198,817</u>	<u>198,817</u>	<u>-</u>	<u>(189,858)</u>	<u>(189,858)</u>
<b>TOTAL NON-OPERATING ACTIVITY</b>	<u>4,093,456</u>	<u>406,970</u>	<u>4,500,426</u>	<u>2,385,057</u>	<u>476,859</u>	<u>2,861,916</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	(464,945)	(458,444)	(923,389)	(3,098,369)	(21,793)	(3,120,162)
<b>Net assets - beginning of period</b>	<u>11,826,139</u>	<u>3,657,675</u>	<u>15,483,814</u>	<u>14,924,508</u>	<u>3,679,468</u>	<u>18,603,976</u>
<b>NET ASSETS - END OF PERIOD</b>	<u>\$ 11,361,194</u>	<u>\$ 3,199,231</u>	<u>\$ 14,560,425</u>	<u>\$ 11,826,139</u>	<u>\$ 3,657,675</u>	<u>\$ 15,483,814</u>

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 DECEMBER 31, 2019**  
(With Comparative Totals For the Year Ended December 31, 2018)

	For the Year Ended December 31, 2019								Total 2018
	Program Services			Supporting Services					
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2019	
Salaries	\$ 4,048,579	\$ 1,748,250	\$ 5,796,829	\$ 1,380,194	\$ 2,024,290	\$ -	\$ 3,404,484	\$ 9,201,313	\$ 8,996,847
Payroll taxes and employee benefits (Note 6)	1,156,690	499,479	1,656,169	394,327	578,345	-	972,672	2,628,841	2,548,350
<b>Total Salaries and Related Costs</b>	5,205,269	2,247,729	7,452,998	1,774,521	2,602,635	-	4,377,156	11,830,154	11,545,197
Donated legal services (Note 2F)	8,065,421	-	8,065,421	-	14,225	-	14,225	8,079,646	6,992,474
Printing and outreach	-	598,048	598,048	-	491,921	239,986	731,907	1,329,955	1,502,427
Occupancy (Note 7A)	614,605	319,561	934,166	188,001	303,169	-	491,170	1,425,336	1,361,641
Professional services	228,760	301,282	530,042	592,929	503,484	146,739	1,243,152	1,773,194	1,800,035
Travel and meetings	258,672	86,961	345,633	176,035	335,993	26,711	538,739	884,372	652,693
Office supplies	36,957	19,215	56,172	11,303	18,230	-	29,533	85,705	112,023
Insurance	33,542	17,440	50,982	10,260	16,546	-	26,806	77,788	80,475
Equipment rental and repairs	23,698	12,321	36,019	7,248	11,689	-	18,937	54,956	60,993
Telecommunications	216,423	112,528	328,951	66,203	106,756	-	172,959	501,910	415,125
Dues and subscriptions	109,212	13,339	122,551	14,803	13,221	-	28,024	150,575	67,195
Credit card and bank charges	-	-	-	128,052	-	-	128,052	128,052	110,809
Postage	41,431	21,542	62,973	12,672	20,437	6,110	39,219	102,192	204,288
Recruitment and training	43,178	21,964	65,142	13,399	21,336	-	34,735	99,877	210,706
Direct case expenses	94,525	-	94,525	-	-	-	-	94,525	144,546
Direct special event expenses	-	-	-	-	-	745,890	745,890	745,890	782,967
Bad debt	-	-	-	44,603	-	-	44,603	44,603	290,536
Depreciation and amortization (Note 5)	82,744	43,023	125,767	25,310	40,816	-	66,126	191,893	220,265
<b>Subtotal</b>	15,054,437	3,814,953	18,869,390	3,065,339	4,500,458	1,165,436	8,731,233	27,600,623	26,554,395
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(745,890)	(745,890)	(745,890)	(782,967)
<b>TOTAL EXPENSES</b>	<u>\$ 15,054,437</u>	<u>\$ 3,814,953</u>	<u>\$ 18,869,390</u>	<u>\$ 3,065,339</u>	<u>\$ 4,500,458</u>	<u>\$ 419,546</u>	<u>\$ 7,985,343</u>	<u>\$ 26,854,733</u>	<u>\$ 25,771,428</u>

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 DECEMBER 31, 2018**

	Program Services			Supporting Services				Total 2018
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	
Salaries	\$ 4,684,003	\$ 1,978,329	\$ 6,662,332	\$ 759,719	\$ 1,574,796	\$ -	\$ 2,334,515	\$ 8,996,847
Payroll taxes and employee benefits (Note 6)	1,321,819	562,617	1,884,436	216,057	447,857	-	663,914	2,548,350
<b>Total Salaries and Related Costs</b>	<b>6,005,822</b>	<b>2,540,946</b>	<b>8,546,768</b>	<b>975,776</b>	<b>2,022,653</b>	<b>-</b>	<b>2,998,429</b>	<b>11,545,197</b>
Donated legal services (Note 2F)	6,845,556	-	6,845,556	-	146,918	-	146,918	6,992,474
Printing and outreach	-	654,693	654,693	-	657,129	190,605	847,734	1,502,427
Occupancy (Note 7A)	706,278	300,619	1,006,897	115,444	239,300	-	354,744	1,361,641
Professional services	24,540	324,127	348,667	705,429	575,148	170,791	1,451,368	1,800,035
Travel and meetings	224,766	67,590	292,356	128,516	201,961	29,860	360,337	652,693
Office supplies	58,106	24,732	82,838	9,498	19,687	-	29,185	112,023
Insurance	41,742	17,767	59,509	6,823	14,143	-	20,966	80,475
Equipment rental and repairs	31,637	13,466	45,103	5,171	10,719	-	15,890	60,993
Telecommunications	215,324	91,650	306,974	35,195	72,956	-	108,151	415,125
Dues and subscriptions	34,854	14,835	49,689	5,697	11,809	-	17,506	67,195
Credit card and bank charges	-	-	-	110,809	-	-	110,809	110,809
Postage	101,009	42,993	144,002	16,510	34,224	9,552	60,286	204,288
Recruitment and training	109,293	46,519	155,812	17,864	37,030	-	54,894	210,706
Direct case expenses	144,546	-	144,546	-	-	-	-	144,546
Direct special event expenses	-	-	-	-	-	782,967	782,967	782,967
Bad debt	-	-	-	290,536	-	-	290,536	290,536
Depreciation and amortization (Note 5)	114,250	48,630	162,880	18,675	38,710	-	57,385	220,265
Subtotal	14,657,723	4,188,567	18,846,290	2,441,943	4,082,387	1,183,775	7,708,105	26,554,395
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(782,967)	(782,967)	(782,967)
<b>TOTAL EXPENSES</b>	<b>\$ 14,657,723</b>	<b>\$ 4,188,567</b>	<b>\$ 18,846,290</b>	<b>\$ 2,441,943</b>	<b>\$ 4,082,387</b>	<b>\$ 400,808</b>	<b>\$ 6,925,138</b>	<b>\$ 25,771,428</b>

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

**LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (923,389)	\$ (3,120,162)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	191,893	220,265
Change in value of gift annuities	16,533	108,504
Change in value of beneficial interest in trusts	(198,817)	189,858
Net realized and unrealized loss (gain) on investments and gift annuities	(1,663,136)	988,688
Deferred rent	(65,508)	(57,099)
Bad debt expense	44,603	290,536
	(2,597,821)	(1,379,410)
Subtotal		
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	(261,878)	50,721
Grants receivable - foundations and corporations	(34,167)	491,000
Bequests receivable	(550,243)	(89,757)
Prepaid expenses and other assets	(149,855)	117,119
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	157,034	131,589
Accrued payroll and vacation	90,616	(32,299)
Deferred income	85,584	(34,751)
	(3,260,730)	(745,788)
<b>Net Cash Used in Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from investment sales	18,743,802	18,024,388
Purchase of investments	(15,570,530)	(16,753,294)
Purchase of property and equipment and leasehold improvements	-	(15,923)
	3,173,272	1,255,171
<b>Net Cash Provided by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on annuities and trusts	238,706	(156,284)
Proceeds from issuance of annuities	353,216	62,180
	591,922	(94,104)
<b>Net Cash Provided by (Used in) Financing Activities</b>		
<b>NET INCREASE IN CASH</b>	504,464	415,279
Cash - beginning of period	2,785,673	2,370,394
<b>CASH - END OF PERIOD</b>	\$ 3,290,137	\$ 2,785,673

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



**LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**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 increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are 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 net assets with donor restrictions, as well as released from restrictions.
- C. Lambda Legal maintains its net assets under the following two classes:
- Without donor restrictions – net assets that have not been restricted by the donor. Such resources are available to support Lambda Legal's operations.
  - With donor restrictions – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations, including net assets that must be invested in perpetuity.
- D. Property and equipment are 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 \$2,500 threshold above which assets are capitalized. Purchases below \$2,500 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 net of any investment expenses.
- 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. Such contributions-in-kind are reflected as both income and expense in the accompanying statements of activities.
- 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 DEFENSE AND EDUCATION FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Lambda Legal's entire gift annuity program recorded an asset amounting to \$2,373,571 and \$2,321,698 and a liability of \$1,408,487 and \$1,194,981 as of December 31, 2019 and 2018, respectively. Contribution revenue amounted to \$170,782 and \$70,456 for the years ended December 31, 2019 and 2018, 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 net assets with donor restrictions the fair value of the trusts based on the present value of the estimated expected future cash flows from the trusts' assets. The present value is calculated using risk-adjusted discount rates based on the term of the trust. Distributions received by Lambda Legal are net assets without donor restrictions 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 \$43,000 and \$61,000 was necessary as of December 31, 2019 and 2018, 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. Unless material, Lambda Legal records the contribution portion of the events as income when received and the exchange portion as deferred income until earned.
- 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 \$65,508 and \$57,099 for the years ended December 31, 2019 and 2018, 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.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- 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 money market funds to be investments.
- Q. Lambda Legal includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment return, bequests and changes in value of gift annuities and beneficial interest in trusts are recognized as nonoperating activities.
- R. 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. The expenses that are allocated include salaries and payroll taxes and employee benefits, which are allocated on the basis of estimates of time and effort. Other allocated expenses include occupancy, professional services, travel and meetings, office supplies, insurance, equipment rental and repairs, telecommunications, dues and subscriptions, postage, recruitment and training, and depreciation and amortization, which are all allocated based on the allocation of salary costs.
- S. Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” and ASU 2018-08, “*Clarifying the Scope and the Accounting Guidance for Contributions Made*” were adopted for the year ended December 31, 2019. ASU 2014-09 provides guidance on how revenue should be recognized; the core principal is that Lambda Legal should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2018-08 was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The ASU will assist Lambda Legal in determining if revenue should be classified as an exchange transaction or a contribution. These changes had no impact on Lambda Legal for the year ended December 31, 2019.

**NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES**

Management monitors levels of available financial assets to anticipate cash requirements for general expenditures as obligations come due. Lambda Legal considers all expenditures related to its ongoing program activities as well as service undertaken to support those activities and restricted funds to be general expenditures. Lambda Legal has a \$2,500,000 revolving line of credit, secured by Lambda Legal’s investments, which it can draw upon in the event of a liquidity need. No funds were borrowed from this revolving line of credit during the years ended December 31, 2019 or December 31, 2018.

Lambda Legal’s financial assets available to meet general expenditures over the next year are as follows:

Cash	\$ 3,290,137
Pledges receivable, net – individuals	770,527
Grants receivable – foundations and corporations	323,167
Bequests receivable	640,000
Investments	8,752,681
Assets held for gift annuities	<u>2,373,571</u>
Total financial assets	16,150,083
Less: pledges receivable due in more than one year	(238,333)
Less: endowment investments	(8,345,547)
Less: assets held for gift annuities	<u>(2,373,571)</u>
	<u>\$ 5,192,632</u>

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**NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES**

Investments consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 723,211	\$ 1,522,375
Common stock	1,849,783	2,341,333
Mutual funds – equities	2,965,717	4,303,484
Mutual funds – fixed income	2,014,977	417,021
U.S. government bonds	732,699	1,012,465
Corporate bonds	<u>466,294</u>	<u>718,012</u>
	<u>\$ 8,752,681</u>	<u>\$ 10,314,690</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:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 522,109	\$ 28,476
Common stock	976,672	1,164,786
U.S. government bonds	244,937	364,143
Corporate bonds	<u>629,853</u>	<u>764,293</u>
	<u>\$ 2,373,571</u>	<u>\$ 2,321,698</u>

Investment activity for investments held consists of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 340,350	\$ 401,208
Unrealized gain (loss) on investments	811,189	(1,222,004)
Realized gain on investment sales	557,303	325,922
Investment management fees	<u>(107,533)</u>	<u>(119,277)</u>
Sub-total	<u>\$ 1,601,309</u>	<u>\$ (614,151)</u>

Investment activity for assets held for gift annuities consists of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 44,047	\$ 56,698
Unrealized gain (loss) on investments	167,313	(142,903)
Realized gain on investment sales	<u>127,331</u>	<u>50,297</u>
Sub-total	<u>338,691</u>	<u>(35,908)</u>
Total investment activity	<u>\$ 1,940,000</u>	<u>\$ (650,059)</u>

Investment activity related to Lambda Legal's gift annuities is reported net of fees incurred, which are not separated from the components of investment return above.

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**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 1,033,349	\$ 1,033,349	3-5 years
Leasehold improvements	<u>874,398</u>	<u>874,396</u>	5-15 years
Total cost	1,907,747	1,907,745	
Less: accumulated depreciation and amortization	<u>(1,359,819)</u>	<u>(1,167,924)</u>	
Net book value	<u>\$ 547,928</u>	<u>\$ 739,821</u>	

Depreciation and amortization expense amounted to \$191,893 and \$220,265 for the years ended December 31, 2019 and 2018, respectively.

**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 the years ended December 31, 2019 and 2018, Lambda Legal's contributions amounted to approximately \$175,000 and \$138,000, 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 each of the five years ended subsequent to December 31, 2019 and thereafter:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 1,037,000	\$ 28,000	\$ 1,065,000
2021	980,000	20,000	1,000,000
2022	986,000	1,000	987,000
2023	752,000	-	752,000
2024	752,000	-	752,000
Thereafter	<u>1,880,000</u>	<u>-</u>	<u>1,880,000</u>
	<u>\$ 6,387,000</u>	<u>\$ 49,000</u>	<u>\$ 6,436,000</u>

Rent expense amounted to approximately \$1,199,000 and \$1,175,000 for the years ended December 31, 2019 and 2018, respectively. Such amounts are included in occupancy expense in the accompanying statements of functional expenses.

- 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 years ended December 31, 2019 and December 31, 2018, there were no borrowings. As of July 1, 2020, there was \$0 outstanding.
- C. Lambda Legal and its employees signed a collective bargaining agreement in 2019, which expires on June 30, 2022.

**LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.**  
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**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Time restrictions		
Beneficial interest in trusts	\$ 703,609	\$ 899,741
Other time restricted gifts	623,167	694,142
Purpose restrictions	230,288	544,452
Unappropriated earnings from donor-restricted endowment	152,918	96,238
Term endowment*	1,066,159	1,000,012
Donor-restricted endowment corpus	<u>423,090</u>	<u>423,090</u>
	<u>\$ 3,199,231</u>	<u>\$ 3,657,675</u>

\* Towards the very end of the year ended December 31, 2018, Lambda Legal received a term endowment gift to fund a legal fellowship. Until the end of 2028, Lambda Legal must invest the donation and use any investment earnings for the fellowship. After 2028, Lambda Legal may use the remaining portion of the gift for other restricted purposes.

Net assets were released from restrictions during the years ended December 31, 2019 and 2018, by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

	<u>2019</u>	<u>2018</u>
Regional Offices	\$ 147,000	\$ 286,845
Fair Courts	175,000	341,305
Out of Youth	52,575	-
Law and Policy Project	67,282	17,718
DC Office	86,000	497,443
HIV Criminalization	531,782	278,179
Illinois Fair Senior Housing	100	-
Appropriation of endowment earnings	74,919	32,847
Time restrictions lifted	<u>967,434</u>	<u>632,666</u>
	<u>\$ 2,102,092</u>	<u>\$ 2,087,003</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 donor-restricted endowment funds. During the year ended December 31, 2018, the Board approved a resolution to appropriate 7% of the rolling five-year average market value of the donor-restricted endowment funds to net assets without donor restrictions.

In accordance with NYPMIFA, any unappropriated earnings on endowment funds that would otherwise not have donor restrictions should be reflected as net assets with donor restrictions until appropriated by the Board of Directors. Accordingly, all investment earnings on the endowment since inception have been classified as net assets with donor restrictions in a manner consistent with the standards prescribed by NYPMIFA.

Lambda Legal’s Board designated endowments consist of a discretionary fund that may be used with Board approval.

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**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Changes in endowment net assets for the year ended December 31, 2019, are as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions			2019 Total
		Term Endowment	Unappropriated Earnings	Endowment Corpus	
Investment activity	\$ 1,217,425	\$ 92,871	\$ 104,875	\$ -	\$ 1,415,171
Appropriations from donor-restricted funds	74,919	(26,724)	(48,195)	-	-
Spending for operations	<u>(3,074,014)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,074,014)</u>
Change in endowment net assets	(1,781,670)	66,147	56,680	-	(1,658,843)
Endowment net assets, beginning of year	<u>8,485,050</u>	<u>1,000,012</u>	<u>96,238</u>	<u>423,090</u>	<u>10,004,390</u>
Endowment net assets, end of year	<u>\$ 6,703,380</u>	<u>\$ 1,066,159</u>	<u>\$ 152,918</u>	<u>\$ 423,090</u>	<u>\$ 8,345,547</u>

Changes in endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions			2018 Total
		Term Endowment	Unappropriated Earnings	Endowment Corpus	
Investment activity	\$ (431,990)	\$ 12	\$ (28,903)	\$ -	\$ (460,881)
Appropriations from donor-restricted funds	32,847	-	(32,847)	-	-
Spending for operations	(2,507,562)	-	-	-	(2,507,562)
Contributions	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Change in endowment net assets	(2,906,705)	1,000,012	(61,750)	-	(1,968,443)
Endowment net assets, beginning of year	<u>11,391,755</u>	<u>-</u>	<u>157,988</u>	<u>423,090</u>	<u>11,972,833</u>
Endowment net assets, end of year	<u>\$ 8,485,050</u>	<u>\$ 1,000,012</u>	<u>\$ 96,238</u>	<u>\$ 423,090</u>	<u>\$ 10,004,390</u>

As of December 31, 2019 and 2018, endowment net assets of \$8,345,547 and \$10,004,390 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. Lambda Legal had no such deficiencies in its donor-restricted endowment funds as of December 31, 2019 and 2018.

**NOTE 9 – ALLOCATION OF JOINT COSTS**

Lambda Legal incurred joint costs of \$391,741 and \$443,326 (other than donated services) for informational materials and activities that were included in fundraising appeals during the years ended December 31, 2019 and 2018, respectively. Of these costs, \$269,801 and \$223,166 were allocated to program expenses and \$121,940 and \$220,160 were allocated to fundraising for the years ended December 31, 2019 and 2018, respectively, as prescribed by U.S. GAAP.

**NOTE 10 – CONCENTRATIONS**

Cash that potentially subjects Lambda Legal to a concentration of credit risk includes 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, 2019 and 2018, there was approximately \$2,427,000 and \$1,740,000, respectively, of cash held by the bank that exceeded FDIC limits. Such excess includes outstanding checks.

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**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 the 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 instrument 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, 2019 and 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 2019</u>
Investments:			
Money market funds	\$ 723,211	\$ -	\$ 723,211
Common stock	1,849,783	-	1,849,783
Mutual funds – equities	2,965,717	-	2,965,717
Mutual funds – fixed income	2,014,977	-	2,014,977
U.S. government bonds	732,699	-	732,699
Corporate bonds	<u>-</u>	<u>466,294</u>	<u>466,294</u>
Total investments	<u>8,286,387</u>	<u>466,294</u>	<u>8,752,681</u>
Assets held for gift annuities:			
Money market funds	522,109	-	522,109
Common stock – equities	976,672	-	976,672
Fixed income – U.S. government bonds	244,937	-	244,937
Fixed income – corporate bonds	<u>-</u>	<u>629,853</u>	<u>629,853</u>
Total assets held for gift annuities	<u>1,743,718</u>	<u>629,853</u>	<u>2,373,571</u>
<b>TOTAL ASSETS AT FAIR VALUE</b>	<b><u>\$ 10,030,105</u></b>	<b><u>\$ 1,096,147</u></b>	<b><u>\$ 11,126,252</u></b>



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**NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)**

Financial assets and liabilities are carried at fair value at December 31, 2018 and 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 2018</u>
Investments:			
Money market funds	\$ 1,522,375	\$ -	\$ 1,522,375
Common stock	2,341,333	-	2,341,333
Mutual funds – equities	4,303,484	-	4,303,484
Mutual funds – fixed income	417,021	-	417,021
U.S. government bonds	1,012,465	-	1,012,465
Corporate bonds	<u>-</u>	<u>718,012</u>	<u>718,012</u>
Total investments	<u>9,596,678</u>	<u>718,012</u>	<u>10,314,690</u>
Assets held for gift annuities:			
Money market funds	28,476	-	28,476
Common stock – equities	1,164,786	-	1,164,786
Fixed income – U.S. government bonds	364,143	-	364,143
Fixed income – corporate bonds	<u>-</u>	<u>764,293</u>	<u>764,293</u>
Total assets held for gift annuities	<u>1,557,405</u>	<u>764,293</u>	<u>2,321,698</u>
 TOTAL ASSETS AT FAIR VALUE	 <u>\$ 11,154,083</u>	 <u>\$ 1,482,305</u>	 <u>\$ 12,636,388</u>

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended December 31, 2019 and December 31, 2018, there were no transfers.

**NOTE 12 – BENEFICIAL INTEREST IN TRUSTS**

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

- 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.

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**NOTE 13 – PLEDGES AND GRANTS RECEIVABLE**

Pledges receivable consist of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Collectible in:		
Less than one year	\$ 898,507	\$ 678,517
One to five years	<u>238,333</u>	<u>225,000</u>
	1,136,840	903,517
Less: allowance for doubtful accounts	<u>(43,146)</u>	<u>(61,265)</u>
	<u>\$ 1,093,694</u>	<u>\$ 842,252</u>

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated events subsequent to the date of the statement of financial position through July 1, 2020, the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. Lambda Legal could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on our mission, programs, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, we cannot predict the extent to which our financial condition and results of operations will be affected.

In response to the pandemic, in March 2020, the United States passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which included the Paycheck Protection Program, which intends to provide loans to businesses to cover payroll costs. The loans are eligible for forgiveness if certain criteria are met. On April 20, 2020, Lambda Legal received a loan of \$1,919,910 under this program.