



LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

Financial Statements
(Together with Independent Auditors' Report)

For the Year Ended October 31, 2009
(With Comparative Totals For October 31, 2008)



LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

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

**FOR THE YEAR ENDED OCTOBER 31, 2009
(With Comparative Totals for October 31, 2008)**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal") as of October 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Lambda Legal's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Lambda Legal's October 31, 2008 financial statements and, in our report dated January 8, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lambda Legal Defense and Education Fund, Inc. as of October 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth & Shron LLP

New York, NY
February 16, 2010



LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2009
(With Comparative Totals for October 31, 2008)

| | 2009 | 2008 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 363,611 | \$ 218,863 |
| Pledges receivable, net - individuals (Note 2K) | 29,595 | 108,931 |
| Grants receivable - foundations and corporations (Note 2K) | 100,000 | - |
| Bequest receivable, net (Notes 2H, 4 and 12) | 8,353,304 | 9,195,501 |
| Prepaid expenses and other assets | 377,991 | 217,199 |
| Property and equipment, net (Notes 2D and 6) | 128,417 | 181,123 |
| Investments (Notes 2E, 5 and 13) | 4,084,977 | 2,433,278 |
| Assets held for gift annuities (Notes 2G, 5 and 13) | 1,093,241 | 792,542 |
| TOTAL ASSETS | \$ 14,531,136 | \$ 13,147,437 |
| LIABILITIES | | |
| Accounts payable and accrued expenses (Note 2I) | \$ 443,891 | \$ 359,125 |
| Accrued payroll and vacation | 348,022 | 322,985 |
| Deferred income (Note 2L) | 4,680 | 2,820 |
| Deferred rent (Note 2M) | 30,422 | 45,633 |
| Liabilities under gift annuities (Note 2G) | 711,821 | 603,231 |
| TOTAL LIABILITIES | 1,538,836 | 1,333,794 |
| COMMITMENTS (Note 8) | | |
| NET ASSETS (Note 2C) | | |
| Unrestricted | 4,225,770 | 2,161,536 |
| Temporarily restricted (Note 9) | 8,486,428 | 9,418,925 |
| Permanently restricted | 280,102 | 233,182 |
| TOTAL NET ASSETS | 12,992,300 | 11,813,643 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 14,531,136 | \$ 13,147,437 |

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2009
(With Comparative Totals for October 31, 2008)

For the Year Ended October 31, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total 2009</u> | <u>Total 2008</u> |
|--|---------------------|-------------------------------|-------------------------------|----------------------|----------------------|
| PUBLIC SUPPORT AND REVENUE: | | | | | |
| Special events revenue | \$ 3,444,442 | - | \$ - | \$ 3,444,442 | \$ 3,822,344 |
| Less: direct special event expenses | (531,293) | - | - | (531,293) | (570,238) |
| Net revenues from special events | 2,913,149 | - | - | 2,913,149 | 3,252,106 |
| Grants from foundations and corporations (Note 2B) | 1,277,461 | 479,333 | - | 1,756,794 | 1,822,309 |
| Contributions and memberships (Note 2B) | 4,799,267 | 41,719 | - | 4,840,986 | 4,480,144 |
| Bequests (Notes 2H and 12) | 934,288 | 632,286 | 46,920 | 1,613,494 | 10,923,344 |
| Donated services (Notes 2F and 10) | 5,040,852 | - | - | 5,040,852 | 5,324,004 |
| Attorney fees (Note 2J) | 352,518 | - | - | 352,518 | 80,582 |
| Revenue under gift annuities (Note 2G) | 92,461 | - | - | 92,461 | 22,943 |
| Investment activity (Note 5) | 197,950 | - | - | 197,950 | (29,970) |
| Change in value of gift annuities (Note 2G) | (27,406) | - | - | (27,406) | (42,200) |
| Other revenue (Notes 6 and 8) | 29,450 | - | - | 29,450 | 38,152 |
| Net assets released from restrictions (Note 9) | 2,085,835 | (2,085,835) | - | - | - |
| TOTAL PUBLIC SUPPORT AND REVENUE | <u>17,695,825</u> | <u>(932,497)</u> | <u>46,920</u> | <u>16,810,248</u> | <u>25,871,414</u> |
| EXPENSES: | | | | | |
| Program Services: | | | | | |
| Legal | 8,431,888 | - | - | 8,431,888 | 9,281,895 |
| Educational | 4,336,539 | - | - | 4,336,539 | 4,582,111 |
| Total program services | <u>12,768,427</u> | <u>-</u> | <u>-</u> | <u>12,768,427</u> | <u>13,864,006</u> |
| Supporting Services: | | | | | |
| Management and general | 1,066,262 | - | - | 1,066,262 | 1,255,884 |
| Fundraising | 1,635,938 | - | - | 1,635,938 | 1,781,547 |
| Special events | 160,964 | - | - | 160,964 | 224,644 |
| Total supporting services | <u>2,863,164</u> | <u>-</u> | <u>-</u> | <u>2,863,164</u> | <u>3,262,075</u> |
| TOTAL EXPENSES | <u>15,631,591</u> | <u>-</u> | <u>-</u> | <u>15,631,591</u> | <u>17,126,081</u> |
| CHANGE IN NET ASSETS | <u>2,064,234</u> | <u>(932,497)</u> | <u>46,920</u> | <u>1,178,657</u> | <u>8,745,333</u> |
| Net assets - beginning of year | <u>2,161,536</u> | <u>9,418,925</u> | <u>233,182</u> | <u>11,813,643</u> | <u>3,068,310</u> |
| NET ASSETS - END OF YEAR | <u>\$ 4,225,770</u> | <u>\$ 8,486,428</u> | <u>\$ 280,102</u> | <u>\$ 12,992,300</u> | <u>\$ 11,813,643</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 OCTOBER 31, 2009
(With Comparative Totals for October 31, 2008)

| | For the Year Ended October 31, 2009 | | | | | | | | |
|---|-------------------------------------|---------------------|------------------------|------------------------|---------------------|-------------------|---------------------------|----------------------|----------------------|
| | Program Services | | | Supporting Services | | | | | |
| | Legal | Educational | Total Program Services | Management and General | Fundraising | Special Events | Total Supporting Services | Total 2009 | Total 2008 |
| Salaries | \$ 2,402,999 | \$ 2,168,561 | \$ 4,571,560 | \$ 586,097 | \$ 703,317 | \$ - | \$ 1,289,414 | \$ 5,860,974 | \$ 6,286,581 |
| Payroll taxes and employee benefits (Note 7) | 624,480 | 563,565 | 1,188,045 | 152,311 | 182,775 | - | 335,086 | 1,523,131 | 1,788,542 |
| Total Salaries and Related Costs | 3,027,479 | 2,732,126 | 5,759,605 | 738,408 | 886,092 | - | 1,624,500 | 7,384,105 | 8,075,123 |
| Occupancy (Note 8) | 310,936 | 280,601 | 591,537 | 75,838 | 91,006 | - | 166,844 | 758,381 | 693,227 |
| Professional services | 11,055 | 21,668 | 32,723 | 43,330 | 99,578 | 84,276 | 227,184 | 259,907 | 372,464 |
| Travel and meetings | 49,629 | 29,285 | 78,914 | 10,815 | 111,163 | 12,115 | 134,093 | 213,007 | 342,837 |
| Office supplies | 23,500 | 21,207 | 44,707 | 5,398 | 6,878 | - | 12,276 | 56,983 | 129,531 |
| Insurance | 41,320 | 37,289 | 78,609 | 10,078 | 12,094 | - | 22,172 | 100,781 | 77,973 |
| Equipment rental and repairs | 21,093 | 19,035 | 40,128 | 5,145 | 6,174 | - | 11,319 | 51,447 | 52,073 |
| Telecommunications | 67,105 | 60,559 | 127,664 | 16,367 | 19,641 | - | 36,008 | 163,672 | 180,999 |
| Dues and subscriptions | 16,898 | 13,391 | 30,289 | 3,814 | 2,767 | - | 6,581 | 36,870 | 36,592 |
| Credit card and bank charges (Note 5) | - | - | - | 118,121 | - | - | 118,121 | 118,121 | 128,812 |
| Donated services (Notes 2F and 10) | 4,636,650 | 358,882 | 4,995,532 | 20,600 | 24,720 | - | 45,320 | 5,040,852 | 5,324,004 |
| Postage | 30,895 | 27,881 | 58,776 | 6,340 | 20,571 | 20,465 | 47,376 | 106,152 | 144,377 |
| Printing and outreach | 9,404 | 705,218 | 714,622 | 155 | 344,723 | 44,108 | 388,986 | 1,103,608 | 1,216,593 |
| Recruitment and training | 4,737 | 2,196 | 6,933 | 2,014 | 1,708 | - | 3,722 | 10,655 | 55,102 |
| Direct case expenses | 151,043 | - | 151,043 | - | - | - | - | 151,043 | 167,618 |
| Direct special event expenses | - | - | - | - | - | 531,293 | 531,293 | 531,293 | 570,238 |
| Bad debt | - | - | - | 2,486 | - | - | 2,486 | 2,486 | 52,350 |
| Depreciation and amortization | 30,144 | 27,201 | 57,345 | 7,353 | 8,823 | - | 16,176 | 73,521 | 76,406 |
| Subtotal | 8,431,888 | 4,336,539 | 12,768,427 | 1,066,262 | 1,635,938 | 692,257 | 3,394,457 | 16,162,884 | 17,696,319 |
| Less: expenses deducted directly from revenues on the statement of activities | - | - | - | - | - | (531,293) | (531,293) | (531,293) | (570,238) |
| TOTAL EXPENSES | \$ 8,431,888 | \$ 4,336,539 | \$ 12,768,427 | \$ 1,066,262 | \$ 1,635,938 | \$ 160,964 | \$ 2,863,164 | \$ 15,631,591 | \$ 17,126,081 |

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

LAMDBA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2009
(With Comparative Totals for October 31, 2008)

| | 2009 | 2008 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,178,657 | \$ 8,745,333 |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | | |
| Depreciation and amortization | 73,521 | 76,406 |
| Loss on disposition of property and equipment | 720 | - |
| Change in value of gift annuities | 27,406 | 42,200 |
| Change in discount on bequest receivable | 231,976 | 942,080 |
| Net realized and unrealized (gain) loss on investments and gift annuities | (124,662) | 189,090 |
| Donated investments | (237,264) | (605,827) |
| Contributions restricted for investment in endowment | (46,920) | (170,000) |
| Bad debt expense | 2,486 | 52,350 |
| | 1,105,920 | 9,271,632 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Pledges receivable - individuals | 76,850 | (60,183) |
| Grants receivable - foundations and corporations | (100,000) | 50,000 |
| Bequest receivable | 610,221 | (10,137,581) |
| Prepaid expenses and other assets | (160,792) | (22,224) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 84,766 | (210,945) |
| Accrued payroll and vacation | 25,037 | 7,067 |
| Deferred income | 1,860 | (35,839) |
| Deferred rent | (15,211) | (15,211) |
| | 1,628,651 | (1,153,284) |
| Net Cash Provided (Used) by Operating Activities | 1,628,651 | (1,153,284) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from investment sales | 2,519,946 | 3,370,615 |
| Purchase of investments | (4,110,419) | (2,437,219) |
| Purchase of property and equipment | (21,535) | (32,344) |
| | (1,612,008) | 901,052 |
| Net Cash (Used) Provided by Investing Activities | (1,612,008) | 901,052 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on annuities and trusts | (66,249) | (58,255) |
| Contributions restricted from investment in endowment | 46,920 | 170,000 |
| Proceeds from issuance of annuities | 147,434 | 37,058 |
| | 128,105 | 148,803 |
| Net Cash Provided by Financing Activities | 128,105 | 148,803 |
| NET INCREASE (DECREASE) IN CASH | 144,748 | (103,429) |
| Cash - beginning of year | 218,863 | 322,292 |
| CASH - END OF YEAR | \$ 363,611 | \$ 218,863 |

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Lambda Legal's financial statements have been prepared on the accrual basis of accounting. Lambda Legal adheres to accounting policies generally accepted in the United States of America ("U.S. GAAP").
- B. Lambda Legal reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Accordingly, even if a restriction is fulfilled in the same time period in which the contribution is received, Lambda Legal reports the support as temporarily restricted, as well as released from restrictions.
- C. Lambda Legal maintains its net assets under the following three classes:
- Unrestricted – net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
 - Temporarily Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Lambda Legal pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.
 - Permanently Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Lambda Legal.

Lambda Legal adopted the Financial Accounting Statements Board ("FASB") Staff Position ("FSP") No. 117-1 ("FSP No. 117-1"), FASB ASC 958-205, "Endowment of Not-For-Profit Organizations: Net Asset Classification of Funds Subject To an Enacted Version of the Uniform Prudent Management of Institutional Funds Act" ("UPMIFA"), and enhanced disclosure of all endowment funds (See Note 9).

- D. Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Contributed fixed assets are stated at fair value at the date of gift. Lambda Legal has established a \$1,000 threshold above which assets are capitalized. Purchases below \$1,000 are expensed at the time of acquisition. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. All other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.
- E. Investments are stated at their fair values, which are generally determined by quoted market prices. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- F. Lambda Legal records contributed items at their fair value on the date of receipt. Lambda Legal also receives contributed services that are an integral part of its operations. Such services are only recorded as contributions in-kind (at their fair value) provided they meet the criteria for recognition. Donated services received are estimated at \$5,040,852 and \$5,324,004 for the years ended October 31, 2009 and 2008, respectively, and are reflected as donated services as both income and expense in the accompanying financial statements.
- G. Lambda Legal has a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar annual return of the gift assets during their lifetimes. Payments begin in accordance with the timing stipulated in the gift annuity contracts. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the statement of activities.

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

Lambda Legal's entire gift annuity program has a recorded asset amounting to \$1,093,241 and a liability of \$711,821 as of October 31, 2009. The assets invested are \$115,515 in money market funds and \$977,726 in mutual funds. Contribution income of \$92,461 and \$22,943 for the years ended October 31, 2009 and 2008, respectively, is included in the accompanying statement of activities.

- H. Legacies and bequests are recognized when Lambda Legal is notified that all disputes are resolved and funds are forthcoming. Accordingly, bequests are accrued when wills have passed through probate and legal counsel has confirmed amounts held on behalf of Lambda Legal. It is Lambda Legal's practice to discount bequests receivable due in more than one year to its present value using a risk free rate of return, unless the value is immaterial. The amortization of the bequest discount is reflected as additional contribution revenue. Lambda Legal received a generous bequest in fiscal year 2008 further discussed in Notes 4 and 12.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- I. During the year ending October 31, 2009, Lambda Legal received cash as a fiscal agent that it holds on behalf of an organization. The amount has been recorded as a liability since Lambda Legal is subject to the resource provider's unilateral right to redirect these funds to third party beneficiaries. The liability as of October 31, 2009 of \$18,812 is included in accounts payable and accrued expenses in the accompanying statement of financial position.
- J. Attorney fees are agreed upon fees in amounts corresponding to the value of the time spent by attorneys and can include reimbursement of actual expenses incurred while litigating matters on behalf of Lambda Legal's clients.
- K. Pledges and grants are recorded as revenue when the pledge or grant is made. It is Lambda Legal's practice to discount pledges and grants receivable due in more than one year to present value unless the value is immaterial. Pledges and grants receivable are all scheduled to be collected in the next fiscal year. Historically, Lambda Legal has not experienced significant bad debt losses. Lambda Legal bases its allowance for doubtful accounts on its historical loss experience considering the age of the receivables. Pledges and grants receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Lambda Legal has determined that an allowance of approximately \$29,000 and \$55,000 was necessary as of October 31, 2009 and 2008, respectively, for pledges and no allowance was necessary for grants.
- L. Lambda Legal also receives cash in advance of special events that are to be held after the statement of financial position date. It is Lambda Legal's policy to record the contribution portion of the events as income when received and the exchange portion as deferred income until earned.
- M. Lambda Legal leases its New York City office, whereby the landlord provided a free rent period of 15 months. Lambda Legal reflected a liability for this free rent period that it amortizes on a straight-line basis over the life of the lease, which expires in 2011.
- N. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- O. The October 31, 2009 financial statements include certain prior-year summarized comparative information in total but not in detail for the statements of activities and functional expenses. In addition, certain notes to the financial statements do not contain full detail for October 31, 2008. As a result, the October 31, 2008 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such October 31, 2008 information should be read in conjunction with Lambda Legal's financial statements for the year ended October 31, 2008, from which the summarized information was derived.
- P. Effective November 1, 2008, Lambda Legal adopted FASB Statement No. 157 ("SFAS No. 157"), FASB ASC 820-10, "Fair Value Measurements", which provides a framework for measuring fair value under generally accepted accounting principles. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. Lambda Legal effectively adopted SFAS No. 157 for the fiscal year beginning November 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning November 1, 2009.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Lambda Legal's statements of financial position, activities or cash flows.

As defined in SFAS No. 157, fair value is 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 determining fair value, Lambda Legal uses various methods including market, income and cost approaches. Based on these approaches, Lambda Legal often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the input to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Lambda Legal utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability on the inputs used in the valuation techniques Lambda Legal is required to provide the following information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Q. Management has evaluated events subsequent to the date of the statement of financial position through February 16, 2010, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through February 16, 2010 that would require adjustment or disclosure in the financial statements.

NOTE 3 – CONDITIONAL PLEDGES

Lambda Legal had secured \$450,000 and \$225,000 in two conditional pledges during the years ended October 31, 2007 and 2006, respectively. Lambda Legal had received the full amounts through October 31, 2009.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009

NOTE 4 – BEQUEST RECEIVABLE

The bequest receivable consists of a generous bequest from the Estate of Ric Weiland. As of October 31, 2009, the net bequest receivable associated with this contribution amounted to approximately 98% of total receivables. Equal quarterly disbursements of the Weiland Estate commenced in March of 2008 and are scheduled to continue for an eight year period. During the year ended October 31, 2009, Lambda Legal was notified of an additional distribution to be made over the same period. The bequest receivable is scheduled to be received as follows as of October 31, 2009:

| | |
|------------------------------------|---------------------|
| Amount due in less than one year | \$ 1,459,703 |
| Amount due in one to five years | 7,241,640 |
| Amount due thereafter | <u>362,075</u> |
| | 9,063,418 |
| Less discount (at 3.23% and 2.56%) | <u>(710,114)</u> |
| | <u>\$ 8,353,304</u> |

NOTE 5 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of October 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|----------------------------|---------------------|---------------------|
| Money market funds | \$ 3,810,995 | \$ 2,192,877 |
| Corporate bond mutual fund | <u>273,982</u> | <u>240,401</u> |
| | <u>\$ 4,084,977</u> | <u>\$ 2,433,278</u> |

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

Assets held for gift annuities consist of the following as of October 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|----------------------------|---------------------|-------------------|
| Money market funds | \$ 115,515 | \$ 40,586 |
| Equity mutual fund | 98,176 | 101,919 |
| Corporate bond mutual fund | 716,278 | 483,378 |
| Government bond funds | <u>163,272</u> | <u>166,659</u> |
| | <u>\$ 1,093,241</u> | <u>\$ 792,542</u> |

Investment activity consists of the following for the years ended October 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|------------------|------------------|
| Interest and dividends | \$ 31,936 | \$ 111,398 |
| Unrealized gain (loss) on investments | 33,508 | (66,989) |
| Realized loss on investment sales | <u>(3,014)</u> | <u>(1,395)</u> |
| | <u>\$ 62,430</u> | <u>\$ 43,014</u> |

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

Assets held for gift annuities activity consists of the following for the years ended October 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|--------------------|
| Interest and dividends | \$ 41,352 | \$ 47,722 |
| Unrealized gain (loss) on investments | <u>94,168</u> | <u>(120,706)</u> |
| | <u>\$ 135,520</u> | <u>\$ (72,984)</u> |
| Total activity of investments and assets held for gift annuities | <u>\$ 197,950</u> | <u>\$ (29,970)</u> |

Lambda Legal incurred investment management fees of \$12,254 and \$12,135 during the fiscal years ending October 31, 2009 and 2008, respectively. The fees are reflected as credit card and bank charges in the accompanying statement of functional expenses.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of October 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> | <u>Estimated Useful Lives</u> |
|---|--------------------|--------------------|-------------------------------|
| Furniture, fixtures and equipment | \$ 774,484 | \$ 820,955 | 3-5 years |
| Leasehold improvements | <u>450,854</u> | <u>446,683</u> | 5-15 years |
| Total cost | 1,225,338 | 1,267,638 | |
| Less: accumulated depreciation and amortization | <u>(1,096,921)</u> | <u>(1,086,515)</u> | |
| Net book value | <u>\$ 128,417</u> | <u>\$ 181,123</u> | |

Depreciation expense amounted to \$73,521 and \$76,406 for the years ended October 31, 2009 and 2008, respectively. During the years ended October 31, 2009 and 2008, Lambda Legal wrote off fully depreciated assets in the amount of \$63,117 and \$0, respectively. In addition, during the year ended October 31, 2009, Lambda Legal wrote off equipment with a net book value as of October 31, 2009 of \$720. The loss is reflected as a reduction to other revenue on the accompanying statement of activities.

NOTE 7 – PENSION PLAN

Lambda Legal maintains a qualified defined contribution pension plan covering all eligible employees after one year of service. Employees vest over a multiyear period. Lambda Legal makes discretionary contributions to this plan based on an approval by the Board of Directors. During the years ended October 31, 2009 and 2008, Lambda Legal contributed 5% and 10%, respectively, of the participating employees' salaries, which amounted to approximately \$237,000 and \$484,000, respectively.

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

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

Minimum annual rentals related to the above leases are as follows for years ended subsequent to October 31, 2009:

| | |
|------|---------------------|
| 2010 | \$ 593,391 |
| 2011 | 470,701 |
| 2012 | <u>103,730</u> |
| | <u>\$ 1,167,822</u> |

Rent expense amounted to approximately \$593,000 and \$579,000 for the years ended October 31, 2009 and 2008, respectively.

Other revenue in the accompanying statement of activities includes rental income from subleases amounting to \$14,620 and \$5,400 for the years ended October 31, 2009 and 2008, respectively.

NOTE 9 – NET ASSETS

Temporarily restricted net assets of \$8,486,428 as of October 31, 2009 consist of \$44,500 available for the legal and educational programs in all of Lambda Legal's offices and \$8,441,928, which is time restricted for future fiscal years.

Net assets were released from restrictions during the year ended October 31, 2009 by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

| | |
|-------------------------------|---------------------|
| Family Protections | \$ 150,768 |
| Youth | 43,270 |
| Proyecto Igualdad | 40,038 |
| Fair Courts | 121,500 |
| California Marriage | 64,673 |
| HIV | 52,500 |
| Other | 34,548 |
| Period ended October 31, 2009 | <u>1,578,538</u> |
| | <u>\$ 2,085,835</u> |

The FASB Staff Position No. 117-1 ("FSP No. 117-1") provides guidance on the net asset classifications of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). FSP No. 117-1 also improves disclosure about the organization's endowment funds, whether or not the organization is subject to UPMIFA. UPMIFA has not been enacted in New York State. Therefore, Lambda Legal has implemented only the disclosure guidance provided for in FSP No. 117-1.

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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OCTOBER 31, 2009

NOTE 9 – NET ASSETS (Continued)

Changes in endowment net assets for year ended October 31, 2009:

| | | <u>Permanently Restricted</u> |
|---|----|-----------------------------------|
| Unrealized loss on investments | \$ | (3,729) |
| Additions | | <u>46,920</u> |
| Change in endowment net assets | | 43,191 |
| Endowment net assets, beginning of year | | 233,182 |
| Transfers from operating activity | | <u>3,729</u> |
| Endowment net assets, end of year | \$ | <u>280,102</u> |

Endowment net assets of \$280,102 are included with investments on the statement of financial position for the year ended October 31, 2009.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Lambda Legal to retain as a fund of perpetual duration. In accordance with Lambda Legal's policy noted at Note 2C, deficiencies of this nature are reported in either restricted or unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred in the economy as a whole, whereby the fair market value of the donor restricted endowment fund was below the amount that is required to be retained permanently by \$3,729 as of October 31, 2009.

NOTE 10 – DONATED SERVICES

Some of the program services provided by Lambda Legal are furnished by lawyers and other professionals who, working under the supervision and guidance of Lambda Legal staff members, perform their services free of cost. The total amount of donated services for the years ended October 31, 2009 and 2008 amounted to \$5,040,852 and \$5,324,004, respectively.

NOTE 11 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$418,229 (other than donated services) for informational materials and activities that were included in fundraising appeals. Of these costs, \$120,045 was allocated to program expenses and \$298,184 was allocated to fundraising.

NOTE 12 – CONCENTRATIONS

During the year ended October 31, 2008, a single donor (The Estate of Ric Weiland) bequeathed \$11,186,297 to Lambda Legal. Lambda Legal received three payments totaling \$1,048,716 during the year ended October 31, 2008. The bequest receivable was recorded net of a discount to present value as equal payments are scheduled over the ensuing eight years. The net contribution amounts to approximately 39% of total revenues.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 13 – FAIR VALUE MEASUREMENTS

Financial assets and liabilities are carried at fair value at October 31, 2009 are classified as Level 1 and Level 2 in the table as follows:

| ASSETS CARRIED AT FAIR VALUE: | <u>Level 1</u> | <u>Level 2</u> | <u>Total</u> |
|--|----------------------------|--------------------------|----------------------------|
| Investments: | | | |
| Money market funds | \$ 3,810,995 | \$ - | \$ 3,810,995 |
| Corporate bond mutual funds | <u>273,982</u> | <u>-</u> | <u>273,982</u> |
| Total investments | <u>4,084,977</u> | <u>-</u> | <u>4,084,977</u> |
| Assets held for gift annuities: | | | |
| Money market funds | 115,515 | - | 115,515 |
| Equity mutual funds | 98,176 | - | 98,176 |
| Corporate bond mutual funds | 716,278 | - | 716,278 |
| Government bond funds | <u>-</u> | <u>163,272</u> | <u>163,272</u> |
| Total assets held for gift annuities | <u>929,969</u> | <u>163,272</u> | <u>1,093,241</u> |
| TOTAL ASSETS AT FAIR VALUE | <u>\$ 5,014,946</u> | <u>\$ 163,272</u> | <u>\$ 5,178,218</u> |
| LIABILITIES CARRIED AT FAIR VALUE | | | |
| Liabilities under gift annuities | <u>\$ -</u> | <u>\$ 711,821</u> | <u>\$ 711,821</u> |
| TOTAL LIABILITIES AT FAIR VALUE | <u>\$ -</u> | <u>\$ 711,821</u> | <u>\$ 711,821</u> |

Investments in money market funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. The net asset values of mutual funds are based on the quoted market-level prices of the underlying securities. Investments in government bond funds 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.