National Center for Lesbian Rights

Financial Statements &

Independent Auditor's Report

for the Year Ended

June 30, 2017

COOK & COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

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COOK & COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

Independent Auditor's Report

To the Board of Directors
National Center for Lesbian Rights
San Francisco, California

We have audited the accompanying financial statements of National Center for Lesbian Rights (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 an assessment of the risks of the 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 National Center for Lesbian Rights as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the June 30, 2016, financial statements of National Center for Lesbian Rights and our report dated September 19, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
December 13, 2017

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National Center for Lesbian Rights

Statement of Financial Position
June 30, 2017
with Comparative Totals for June 30, 2016

ASSETS	2017	2016 (Note 2)
Current Assets:		
Cash & equivalents	$ 335,988	$ 730,499
Marketable securities	188,834	199,128
Pledges & grants receivable, due within one year	684,865	617,447
Other receivables	11,648	8,671
Prepaid expenses & other current assets	53,660	39,957
Total current assets	1,274,995	1,595,702
Pledges & grants receivable, due in one to five years	160,000	310,000
Deposits, long-term	33,273	24,149
Property & equipment, net of accumulated depreciation of $79,662 in 2017 and $64,771 in 2016	16,671	22,608
Web site costs, net of accumulated amortization of $41,534 in 2017 and $30,458 in 2016	13,845	24,920
TOTAL ASSETS	$ 1,498,784	$ 1,977,379
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	$ 104,131	$ 84,318
Accrued payroll liabilities	306,579	344,135
Deferred rent (Note 2)	31,032	25,814
Deferred revenue	1,872	-
Loan payable (Note 3)	-	173,333
Total current liabilities	443,614	627,600
Line of credit (Note 4)		
TOTAL LIABILITIES	443,614	627,600
Net Assets		
Unrestricted	265,370	179,253
Temporarily restricted (Note 5)	789,800	1,170,526
TOTAL NET ASSETS	1,055,170	1,349,779
TOTAL LIABILITIES & NET ASSETS	$ 1,498,784	$ 1,977,379

See accompanying notes to financial statements and independent auditor's report.

National Center for Lesbian Rights

Statement of Activities and Changes in Net Assets
for the Year Ended June 30, 2017
with Comparative Totals for the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total (Note 2)
Support & Revenue:				
Contributions & grants	$2,436,836	$1,523,387	$3,960,223	$4,616,877
Net assets released from restriction:				
Satisfaction of donor requirements	2,342,601	(2,342,601)	-	-
Special event, net of direct donor benefits of $410,757 in 2017 and $297,647 in 2016	(107,502)	438,488	330,986	219,870
Case fees	217,182		217,182	730,410
Program revenue	44,048		44,048	42,849
Investment income (Note 6)	8,985		8,985	11,230
Other income	254		254	5,205
Contributed goods (Note 7)	5,000		5,000	42,700
Total support & revenue before contributed services	4,947,404	(380,726)	4,566,678	5,669,141
Contributed services (Notes 2, 7)	5,416,391		5,416,391	3,970,752
Total support & revenue	10,363,795	(380,726)	9,983,069	9,639,893
Expenses:				
Program services	3,687,444		3,687,444	3,962,056
General & administrative	260,625		260,625	275,242
Fundraising	913,218		913,218	798,387
Total expenses before contributed services	4,861,287	-	4,861,287	5,035,685
Contributed services (Notes 2, 7)	5,416,391		5,416,391	3,970,752
Total expenses	10,277,678	-	10,277,678	9,006,437
CHANGE IN NET ASSETS	86,117	(380,726)	(294,609)	633,456
NET ASSETS, July 1	179,253	1,170,526	1,349,779	716,323
NET ASSETS, June 30	$ 265,370	$ 789,800	$1,055,170	$1,349,779

See accompanying notes to financial statements and independent auditor's report.

National Center for Lesbian Rights

Statement of Functional Expenses
for the Year Ended June 30, 2017
with Comparative Totals for the Year Ended June 30, 2016

	Program Services	General & Administrative	Fundraising	2017 Total	2016 Total (Note 2)
Salaries	$ 1,979,685	$ 141,406	$ 235,677	$ 2,356,768	$ 2,470,927
Payroll taxes	142,395	10,171	16,952	169,518	177,116
Benefits	386,786	27,628	46,046	460,460	438,532
Contract services	212,751	34,109	80,422	327,282	460,820
Case expenses	30,118	-	-	30,118	17,229
Grants awarded	-	-	-	-	10,000
Advertising & public relations	17,576	129	6,291	23,996	31,937
Occupancy	218,691	15,621	26,035	260,347	284,752
Books, dues & publications	69,129	59	99	69,287	62,847
Telephone & Internet	68,214	4,663	8,051	80,928	73,486
Information technology	110,624	5,141	40,334	156,099	154,665
Postage	11,651	762	2,109	14,522	15,013
Printing	1,960	44	135	2,139	1,222
Direct mail expenses	-	-	204,421	204,421	165,762
Supplies & equipment	42,452	1,772	10,054	54,278	58,340
Staff development	12,300	73	791	13,164	13,991
Travel	256,117	2,513	22,972	281,602	279,195
Conferences & meetings	41,937	1,584	7,665	51,186	43,590
Gala event production	-	-	120,230	120,230	86,677
Other event production	22,211	32	9,350	31,593	41,206
Insurance	28,078	2,006	3,343	33,427	34,671
Taxes & licenses	797	5,687	515	6,999	8,139
Bank fees & merchant charges	3,987	4,854	40,610	49,451	64,319
Bad debt	-	-	27,145	27,145	6,652
Depreciation & amortization	21,813	1,558	2,597	25,968	25,587
Miscellaneous expenses	8,172	813	1,374	10,359	9,010
Total expenses before contributed services	3,687,444	260,625	913,218	4,861,287	5,035,685
Contributed services (Notes 2, 7)	5,416,391			5,416,391	3,970,752
Total Expenses	$ 9,103,835	$ 260,625	$ 913,218	$ 10,277,678	$ 9,006,437

See accompanying notes to financial statements and independent auditor's report.

National Center for Lesbian Rights

Statement of Cash Flows
for the Year Ended June 30, 2017
with Comparative Totals for the Year Ended June 30, 2016

	2017	2016 Total (Note 2)
Cash flows from operating activities:		
Change in net assets	$ (294,609)	$ 633,456
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	25,968	25,587
Change in fair value of marketable securities	10,674	(7,259)
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	82,582	174,401
(Increase) decrease in other receivables	(2,977)	5,707
(Increase) decrease in prepaid expenses & deposits	(22,827)	(726)
Increase (decrease) in accounts payable & accrued expenses	(17,743)	(54,721)
Increase (decrease) in deferred rent & revenue	7,090	(11,699)
Cash provided (used) by operating activities:	(211,842)	764,746
Cash flows from investing activities:		
Sales (purchase) of marketable securities	(380)	108,917
Acquisition of property & equipment	(8,956)	(8,766)
Cash provided (used) by investing activities:	(9,336)	100,151
Cash flows from financing activities:		
Cash advances from line of credit	-	50,000
Repayments on loan	(173,333)	(226,667)
Cash provided (used) by financing activities:	(173,333)	(176,667)
Cash provided (used) during period	(394,511)	$688,230
Cash and cash equivalents:		
Beginning of period, July 1	730,499	42,269
End of period, June 30	$ 335,988	$ 730,499

See accompanying notes to financial statements and independent auditor's report.

National Center for Lesbian Rights

Notes to Financial Statements
June 30, 2017

1. The Organization

Nature of Activities
Founded in 1977, the National Center for Lesbian Rights (NCLR, the Organization) is a national nonprofit public interest law firm committed to advancing the civil and human rights of lesbian, gay, bisexual, and transgender people (LGBT) and their families through precedent-setting litigation, legislation, policy, direct services, and public education.

NCLR's programs focus on employment, immigration, youth, elder law, transgender law, sports, marriage, relationship protections, reproductive justice, and family law to create safer homes, communities, and a more just world.

For four decades, NCLR has led historic cases, and it is still blazing trails in pursuit of justice, fairness, and legal protections for all LGBT people.

Major Funding
NCLR receives funding from foundations, corporations and individuals. In addition, a substantial amount of support is received in the form of pro bono legal services from attorneys and law firms around the country.

Social Justice Fund
The National Center for Lesbian Rights Social Justice Fund (SJF) is a nonprofit organization that was formed to support the activities of NCLR. SJF is exempt from income taxes under Internal Revenue Code 501(c)(4). Although NCLR and SJF are two distinct legal entities, they are governed by one board of directors and operated as a single organization. In accordance with generally accepted accounting principles, the accompanying financial statements include the accounts of both entities.

2. Summary of Significant Accounting Policies

Basis of Accounting
The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, support is recognized when it is awarded, revenue is recognized when it is earned, and expenses are recognized when they are incurred.

Basis of Presentation
Net assets, revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

(continued)

Unrestricted net assets, which includes resources not subject to donor-imposed restrictions.

Temporarily restricted net assets, which includes resources subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Accounting for Restricted Support

The Organization reports gifts of cash and other assets as 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 restriction.

Gifts of fixed assets are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Cash & Cash Equivalents

Cash and cash equivalents include deposits held in bank checking accounts, as well as money market funds held with an investment brokerage.

Marketable Securities

Marketable securities primarily consist of funds deposited in a World Balanced Fund held with a brokerage firm. This publicly-traded mutual fund is invested in various securities in a balanced approach that ranges from 60% to 75% for equities and from 25% to 40% for fixed income securities. This investment is carried on the books at fair value using unadjusted quoted prices for identical assets in active markets that are accessible at the measurement date (level 1 inputs as defined by generally accepted accounting principles).

Pledges & Grants Receivable

Pledges and grants receivable are reported at the amount management expects to receive from contributors based on written promises received. As management believes all amounts are fully collectible, no allowance for doubtful accounts has been established. Amounts due within one year are stated at face value. Amounts due beyond one year are discounted to present value only in situations where such discounts would be material to the financial statements. Currently, there are no discounts reflected within the financial statements.

(continued)

Other Receivables
Other receivables primarily consist of amounts owed to NCLR for unsettled credit card charges arising from online donations made on or before the balance sheet date and subsequently collected early in the new fiscal year.

Property & Equipment
Property and equipment, stated at cost, consist of leasehold improvements, office equipment and furnishings with an initial cost of $500 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to five years.

Website Costs
NCLR has incurred costs for the design, development and implementation of its organizational website. Costs relating to the development of the site's infrastructure have been capitalized. Other costs pertaining to the website are recorded as expense in the year they are incurred. Amortization is computed using the straight-line method over the estimated useful life of the site in its current form, which is five years.

Deferred Rent
Each of NCLR's two office leases stipulates a staggered rent schedule, whereby monthly rent is increased by approximately 3% to 5% each year. In addition, one lease provides for a two-month rent abatement during the first year of the lease term. In accordance with generally accounting principles, rent expense is recorded on a straight-line basis so that the cost of each lease is recognized evenly over the term. This has resulted in a deferred rent liability that will be fully amortized when the two leases expire in May 2022 and March 2018, respectively.

Fair Value of Financial Instruments
The carrying amounts of cash and cash equivalents, receivables, and payables approximate fair value because of the short maturity of these instruments.

Contributed Services
In order to accomplish its mission, NCLR relies heavily on pro bono services provided by attorneys. These attorneys assist NCLR with various civil rights court cases. In accordance with generally accepted accounting principles, the Organization records the estimated fair market value of these services in the *statement of activities and changes in net assets*. Each year, NCLR solicits information from its volunteer attorneys in order to calculate and record the contributions. Approximately one-third of volunteer attorneys respond to these requests. Based on the responses, median composite valuation rates are developed for the various types of law firm respondents (using firm size and estimated contribution level to categorize each one) and applied to the total population of NCLR's volunteer attorneys in order to determine the total value of contributed services to record in the financial statements. Due to the fact that certain assumptions must be made when calculating and recording estimates, it is at least reasonably possible that the actual value of services received differs from the amount recorded in the financial statements.

(continued)

Functional Expenses
The Organization allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific activity or support service are allocated directly. Expenses that are common to several functions are allocated according to a formula based on the estimated amount of staff time spent on the particular function.

Advertising Costs
The Organization uses advertising to promote its programs among the audiences it serves. All advertising costs are expensed as incurred.

Income Taxes
As a public charity, the Organization is exempt from income taxes except on activities unrelated to its mission. As management believes that all of the Organization's activities are directly related to its mission, no provision has been made for income tax expense. The Organization's federal *Returns of Organization Exempt from Income Tax* (Form 990) for the tax years ending in 2013, 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. The Organization's California *Exempt Organization Annual Information Returns* (Form 199) for the tax years ending in 2012, 2013, 2014, 2015, and 2016 are subject to examination by the California Franchise Tax Board, generally for four years after they were filed.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data
The financial statement information for the year ended June 30, 2016, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation, please refer to the financial statements for that fiscal year.

3. Loan Payable

In September 2015, the Organization's line of credit balance of $400,000 with Wells Fargo Bank was converted to a $400,000, 1-year term loan at an annual interest rate equal to the greater of 5% or the bank's Prime Rate plus 1.75%. The 12 monthly payments of $6,667 principal and amortized interest began in October 2015 and ended in September 2016, at which point the remaining principal balance and any accrued interest became due. As of June 30, 2017, there was no longer an outstanding balance on the loan.

(continued)

4. Line of Credit

In September 2015, the Organization received a revolving credit line of $100,000 at 7% annual interest with the Northern California Community Loan Fund. The term expires on September 30, 2017, and is renewable annually. As of June 30, 2017, there was no outstanding balance on the line of credit.

5. Temporarily Restricted Net Assets

As of June 30, 2017, temporarily restricted net assets consisted of contributions designated by donors for the following:

General support for future periods	$589,930
Pioneers in Justice Initiative	50,000
Sports program	40,000
Organizational strategy	37,812
State Sexual Orientation Gender Identity (SOGI) work	25,000
#BornPerfect Campaign	25,000
Reproductive Justice work	12,501
Other projects	9,557
Total	$789,800

6. Investment Income

Interest & dividends	$19,659
Unrealized gains	(8,735)
Realized gains	(1,939)
Total	$8,985

7. Contributed Goods and Services

NCLR received $5,000 of in-kind contributed raffle prizes for its Annual Gala event.

The Organization received the following pro bono legal services during the year:

Pro bono contributed services reported	$4,411,451
Estimate of additional contributed services (see Note 2)	1,004,940
Total	$5,416,391

(continued)

8. Leases

During the year, NCLR renewed its San Francisco office lease for another five years, effective through May 2022. Rent expense was $23,382 per month as of June 30, 2017, and is scheduled to increase by approximately 3% annually.

The Organization also rents a satellite office in Washington, D.C., under a 63-month operating lease that expires in March 2018. Rent expense was $5,957 per month as of June 30, 2017, and is scheduled to increase by approximately 4.5% annually.

In addition, NCLR leases two copiers and a postage meter under various terms.

Future minimum lease payments for the next three fiscal years are as follows:

2017-2018	$312,053
2018-2019	289,730
2019-2020	298,416
2020-2021	307,367
2021-2022	289,487
Total future minimum lease payments	$1,497,053

9. Retirement Plan

NCLR maintains a defined contribution 403(b) retirement plan. Contributions to the plan are made at the discretion of the board and management, and are allocated to eligible individual employee accounts pro rata based on respective salaries. For the period ended June 30, 2017, the Organization made $22,091 in employer contributions.

10. Contingencies

Investment Risk
NCLR has invested $188,834 in marketable securities that are subject to fluctuation in fair value. Although this presents the possibility of loss, the Organization believes that its investment fund is adequately diversified to mitigate this risk.

Compliance with Funding Source Restrictions
The Organization receives contributions and grants that are restricted for a specific program or purpose. If such restrictions are not met in accordance with the funding source agreement, there is the possibility that funds would have to be returned to the donor. It is management's opinion that all donor requirements have been met for grants and contributions that have been released from temporarily restricted net assets.

(continued)

11. Management's Review of Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 13, 2017, the date the financial statements were available to be issued.