



**Financial Statements
(Together with Independent Auditors' Report)
Years Ended December 31, 2020 and 2019**

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

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

YEARS ENDED DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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
June 4, 2021

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash (Note 11)	\$ 3,274,052	\$ 3,290,137
Pledges receivable, net - individuals (Notes 2K and 14)	1,656,093	770,527
Grants receivable - foundations and corporations (Notes 2K and Note 14)	334,334	323,167
Bequests receivable (Note 2H)	2,434,660	640,000
Prepaid expenses and other assets	1,038,634	722,994
Investments (Notes 2E, 2O, 4 and 12)	16,592,073	8,752,681
Assets held for gift annuities (Notes 2G, 4 and 12)	2,247,771	2,373,571
Beneficial interest in trusts (Notes 2I and 13)	1,234,266	703,609
Property and equipment, net (Notes 2D and 5)	<u>625,494</u>	<u>547,928</u>
TOTAL ASSETS	<u>\$ 29,437,377</u>	<u>\$ 18,124,614</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 993,696	\$ 841,228
Accrued payroll and vacation	1,087,883	527,772
Deferred income (Note 2L)	6,667	113,335
Deferred rent (Note 2M)	673,166	673,367
Liabilities under gift annuities (Note 2G)	1,332,836	1,408,487
Paycheck protection program loan payable (Note 8)	<u>1,933,323</u>	<u>-</u>
TOTAL LIABILITIES	<u>6,027,571</u>	<u>3,564,189</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS (Note 2C)		
Without donor restrictions:		
Invested in property and equipment	625,494	547,928
Board designated (Note 9)	7,688,390	6,703,380
Operations	<u>11,843,223</u>	<u>4,109,886</u>
Total without donor restrictions	20,157,107	11,361,194
With donor restrictions (Note 9)	<u>3,252,699</u>	<u>3,199,231</u>
TOTAL NET ASSETS	<u>23,409,806</u>	<u>14,560,425</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,437,377</u>	<u>\$ 18,124,614</u>

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, 2020 AND 2019

	For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total 2020	Without Donor Restrictions	With Donor Restrictions	Total 2019
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events revenue	\$ 533,007	\$ -	\$ 533,007	\$ 4,183,154	\$ 488,603	\$ 4,671,757
Virtual events	3,430,965	-	3,430,965	-	-	-
Less: direct special event expenses	(12,467)	-	(12,467)	(745,890)	-	(745,890)
Net revenues from special events	3,951,505	-	3,951,505	3,437,264	488,603	3,925,867
Grants from foundations and corporations (Note 2K)	1,709,181	230,000	1,939,181	1,201,308	740,500	1,941,808
Contributions and memberships (Note 2K)	12,292,856	-	12,292,856	6,804,668	7,575	6,812,243
Donated professional services (Note 2F)	14,593,147	-	14,593,147	8,079,646	-	8,079,646
Attorney fees (Note 2J)	240,385	-	240,385	393,991	-	393,991
Contributions under gift annuities (Note 2G)	6,061	424,742	430,803	170,782	-	170,782
Other revenue	95,122	-	95,122	106,581	-	106,581
Net assets released from restrictions (Note 9)	1,007,490	(1,007,490)	-	2,102,092	(2,102,092)	-
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	33,895,747	(352,748)	33,542,999	22,296,332	(865,414)	21,430,918
OPERATING EXPENSES: (Note 2R)						
Program Services:						
Legal	20,821,024	-	20,821,024	15,054,437	-	15,054,437
Educational	4,042,459	-	4,042,459	3,814,953	-	3,814,953
Total program services	24,863,483	-	24,863,483	18,869,390	-	18,869,390
Supporting Services:						
Management and general	2,915,039	-	2,915,039	3,065,339	-	3,065,339
Fundraising	4,441,627	-	4,441,627	4,500,458	-	4,500,458
Special events	453,992	-	453,992	419,546	-	419,546
Total supporting services	7,810,658	-	7,810,658	7,985,343	-	7,985,343
TOTAL OPERATING EXPENSES	32,674,141	-	32,674,141	26,854,733	-	26,854,733
EXCESS (DEFICIT) OF OPERATING REVENUE AND SUPPORT OVER OPERATING EXPENSES	1,221,606	(352,748)	868,858	(4,558,401)	(865,414)	(5,423,815)
NON-OPERATING ACTIVITY (Note 2Q)						
Bequests (Note 2H)	6,037,558	-	6,037,558	2,367,735	10,407	2,378,142
Investment activity (Note 4)	1,610,227	300,300	1,910,527	1,742,254	197,746	1,940,000
Change in value of gift annuities (Note 2G)	(73,478)	-	(73,478)	(16,533)	-	(16,533)
Change in value of beneficial interest in trusts	-	105,916	105,916	-	198,817	198,817
TOTAL NON-OPERATING ACTIVITY	7,574,307	406,216	7,980,523	4,093,456	406,970	4,500,426
TOTAL CHANGE IN NET ASSETS	8,795,913	53,468	8,849,381	(464,945)	(458,444)	(923,389)
Net assets - beginning of year	11,361,194	3,199,231	14,560,425	11,826,139	3,657,675	15,483,814
NET ASSETS - END OF YEAR	\$ 20,157,107	\$ 3,252,699	\$ 23,409,806	\$ 11,361,194	\$ 3,199,231	\$ 14,560,425

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, 2020
(With Comparative Totals For the Year Ended December 31, 2019)

	For the Year Ended December 31, 2020								
	Program Services			Supporting Services					Total 2019
	Legal	Educational	Total Program Services	Management and General	Fundraising	Special Events	Total Supporting Services	Total 2020	
Salaries	\$ 4,542,095	\$ 1,982,112	\$ 6,524,207	\$ 918,994	\$ 1,982,265	\$ -	\$ 2,901,259	\$ 9,425,466	\$ 9,201,313
Payroll taxes and employee benefits (Note 6)	1,258,907	549,371	1,808,278	254,712	549,413	-	804,125	2,612,403	2,628,841
Total Salaries and Related Costs	5,801,002	2,531,483	8,332,485	1,173,706	2,531,678	-	3,705,384	12,037,869	11,830,154
Donated professional services (Note 2F)	13,250,375	422,250	13,672,625	460,772	459,750	-	920,522	14,593,147	8,079,646
Printing and outreach	15,468	274,605	290,073	-	307,779	287,002	594,781	884,854	1,329,955
Occupancy (Note 7A)	681,534	316,074	997,608	146,640	284,162	-	430,802	1,428,410	1,425,336
Professional services	158,264	161,091	319,355	545,759	478,080	133,642	1,157,481	1,476,836	1,773,194
Travel and meetings	52,271	6,264	58,535	33,579	83,656	1,521	118,756	177,291	884,372
Office supplies	47,756	22,148	69,904	10,277	19,911	-	30,188	100,092	85,705
Insurance	47,860	22,196	70,056	10,298	19,955	-	30,253	100,309	77,788
Equipment rental and repairs	31,562	14,637	46,199	6,791	13,160	-	19,951	66,150	54,956
Telecommunications	263,008	121,975	384,983	56,589	109,660	-	166,249	551,232	501,910
Dues and subscriptions	107,168	10,977	118,145	10,520	9,086	-	19,606	137,751	150,575
Credit card and bank charges	-	-	-	140,306	-	-	140,306	140,306	128,052
Postage	12,584	5,836	18,420	2,708	5,247	3,484	11,439	29,859	102,192
Recruitment and training	194,641	90,268	284,909	41,880	81,154	-	123,034	407,943	99,877
Direct case expenses	65,555	-	65,555	-	-	-	-	65,555	94,525
Direct special event expenses	-	-	-	-	-	12,467	12,467	12,467	745,890
Virtual events expenses	-	-	-	-	-	28,343	28,343	28,343	-
Bad debt	-	-	-	255,425	-	-	255,425	255,425	44,603
Depreciation and amortization (Note 5)	91,976	42,655	134,631	19,789	38,349	-	58,138	192,769	191,893
Subtotal	20,821,024	4,042,459	24,863,483	2,915,039	4,441,627	466,459	7,823,125	32,686,608	27,600,623
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(12,467)	(12,467)	(12,467)	(745,890)
TOTAL EXPENSES	\$ 20,821,024	\$ 4,042,459	\$ 24,863,483	\$ 2,915,039	\$ 4,441,627	\$ 453,992	\$ 7,810,658	\$ 32,674,141	\$ 26,854,733

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

	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
Payroll taxes and employee benefits (Note 6)	1,156,690	499,479	1,656,169	394,327	578,345	-	972,672	2,628,841
Total Salaries and Related Costs	5,205,269	2,247,729	7,452,998	1,774,521	2,602,635	-	4,377,156	11,830,154
Donated legal services (Note 2F)	8,065,421	-	8,065,421	-	14,225	-	14,225	8,079,646
Printing and outreach	-	598,048	598,048	-	491,921	239,986	731,907	1,329,955
Occupancy (Note 7A)	614,605	319,561	934,166	188,001	303,169	-	491,170	1,425,336
Professional services	228,760	301,282	530,042	592,929	503,484	146,739	1,243,152	1,773,194
Travel and meetings	258,672	86,961	345,633	176,035	335,993	26,711	538,739	884,372
Office supplies	36,957	19,215	56,172	11,303	18,230	-	29,533	85,705
Insurance	33,542	17,440	50,982	10,260	16,546	-	26,806	77,788
Equipment rental and repairs	23,698	12,321	36,019	7,248	11,689	-	18,937	54,956
Telecommunications	216,423	112,528	328,951	66,203	106,756	-	172,959	501,910
Dues and subscriptions	109,212	13,339	122,551	14,803	13,221	-	28,024	150,575
Credit card and bank charges	-	-	-	128,052	-	-	128,052	128,052
Postage	41,431	21,542	62,973	12,672	20,437	6,110	39,219	102,192
Recruitment and training	43,178	21,964	65,142	13,399	21,336	-	34,735	99,877
Direct case expenses	94,525	-	94,525	-	-	-	-	94,525
Direct special event expenses	-	-	-	-	-	745,890	745,890	745,890
Bad debt	-	-	-	44,603	-	-	44,603	44,603
Depreciation and amortization (Note 5)	82,744	43,023	125,767	25,310	40,816	-	66,126	191,893
Subtotal	15,054,437	3,814,953	18,869,390	3,065,339	4,500,458	1,165,436	8,731,233	27,600,623
Less: expenses deducted directly from revenues on the statements of activities	-	-	-	-	-	(745,890)	(745,890)	(745,890)
TOTAL EXPENSES	<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>

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,849,381	\$ (923,389)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	192,769	191,893
Change in value of gift annuities	73,478	16,533
Change in value of beneficial interest in trusts	(105,916)	(198,817)
Net realized and unrealized gain on investments and gift annuities	(1,764,618)	(1,663,136)
Deferred rent	(201)	(65,508)
Bad debt expense	<u>255,425</u>	<u>44,603</u>
Subtotal	7,500,318	(2,597,821)
Changes in operating assets and liabilities:		
decrease (increase) in assets:		
Pledges receivable - individuals	(1,140,991)	(261,878)
Grants receivable - foundations and corporations	(11,167)	(34,167)
Bequests receivable	(1,794,660)	(550,243)
Prepaid expenses and other assets	(315,640)	(149,855)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	152,468	157,034
Accrued payroll and vacation	560,111	90,616
Deferred income	<u>(106,668)</u>	<u>85,584</u>
Net Cash Provided by (Used in) Operating Activities	<u>4,843,771</u>	<u>(3,260,730)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	23,655,643	18,743,802
Purchase of investments	(29,604,617)	(15,570,530)
Purchase of property and equipment and leasehold improvements	<u>(270,335)</u>	<u>-</u>
Net Cash (Used in) Provided by Investing Activities	<u>(6,219,309)</u>	<u>3,173,272</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Payments on) proceeds from annuities and trusts	(604,135)	238,706
Proceeds from issuance of annuities	30,265	353,216
Proceeds from Paycheck Protection Program loan payable	<u>1,933,323</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>1,359,453</u>	<u>591,922</u>
NET (DECREASE) INCREASE IN CASH	(16,085)	504,464
Cash - beginning of year	<u>3,290,137</u>	<u>2,785,673</u>
CASH - END OF YEAR	<u><u>\$ 3,274,052</u></u>	<u><u>\$ 3,290,137</u></u>

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 principles 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 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, 2020 AND 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lambda Legal's entire gift annuity program recorded an asset amounting to \$2,247,771 and \$2,373,571 and a liability of \$1,332,836 and \$1,408,487 as of December 31, 2020 and 2019, respectively. Contribution revenue amounted to \$430,803 and \$170,782 for the years ended December 31, 2020 and 2019, 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 at 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. Contributions and grants are nonexchange transactions and accounted for under ASU 2018-08. Grants and contracts are recognized as revenue when barriers within the contract are overcome, and there is no right of return/ release from obligation. 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 \$59,000 and \$43,000 was necessary as of December 31, 2020 and 2019, 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 statements 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 \$201 and \$65,508 for the years ended December 31, 2020 and 2019, 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 reporting period. Actual results could differ from those estimates.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 12.
- 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.

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, 2020 and 2019, respectively.

Lambda Legal's financial assets available to meet general expenditures over the next year are as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,274,052	\$ 3,290,137
Pledges receivable, net – individuals	1,656,093	770,527
Grants receivable – foundations and corporations	334,334	323,167
Bequests receivable	2,434,660	640,000
Investments	16,592,073	8,752,681
Assets held for gift annuities	<u>2,247,771</u>	<u>2,373,571</u>
Total financial assets	26,538,983	16,150,083
Less: pledges receivable due in more than one year	(135,000)	(238,333)
Less: endowment investments	(9,318,489)	(8,345,547)
Less: assets held for gift annuities	<u>(2,247,771)</u>	<u>(2,373,571)</u>
	<u>\$ 14,837,723</u>	<u>\$ 5,192,632</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 1,316,239	\$ 723,211
Common stock	4,785,846	1,849,783
Mutual funds – equities	4,843,637	2,965,717
Mutual funds – fixed income	3,164,478	2,014,977
U.S. government bonds	1,335,639	732,699
Corporate bonds	<u>1,146,234</u>	<u>466,294</u>
	<u>\$ 16,592,073</u>	<u>\$ 8,752,681</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>2020</u>	<u>2019</u>
Money market funds	\$ 20,823	\$ 522,109
Common stock	1,181,568	976,672
U.S. government bonds	354,883	244,937
Corporate bonds	<u>690,497</u>	<u>629,853</u>
	<u>\$ 2,247,771</u>	<u>\$ 2,373,571</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 196,690	\$ 340,350
Unrealized gain on investments	1,414,145	811,189
Realized gain on investment sales	183,292	557,303
Investment management fees	<u>(91,347)</u>	<u>(107,533)</u>
Sub-total	<u>\$ 1,702,780</u>	<u>\$ 1,601,309</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 40,566	\$ 44,047
Unrealized gain on investments	82,335	167,313
Realized gain on investment sales	<u>84,846</u>	<u>127,331</u>
Sub-total	<u>207,747</u>	<u>338,691</u>
Total investment activity	<u>\$ 1,910,527</u>	<u>\$ 1,940,000</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.

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 1,146,973	\$ 1,033,349	3-5 years
Leasehold improvements	<u>899,533</u>	<u>874,398</u>	5-15 years
Total cost	2,046,506	1,907,747	
Less: accumulated depreciation and amortization	<u>(1,421,012)</u>	<u>(1,359,819)</u>	
Net book value	<u>\$ 625,494</u>	<u>\$ 547,928</u>	

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 5 – PROPERTY AND EQUIPMENT (Continued)

Depreciation and amortization expense amounted to \$192,769 and \$191,893 for the years ended December 31, 2020 and 2019, respectively. During 2020, assets with an original cost of \$131,576 that were fully depreciated and no longer in service were written off.

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, 2020 and 2019, Lambda Legal's contributions amounted to approximately \$149,000 and \$175,000, 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, 2020 and thereafter:

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2021	\$ 1,130,000	\$ 73,000	\$ 1,203,000
2022	1,049,000	54,000	1,103,000
2023	907,000	53,000	960,000
2024	909,000	40,000	949,000
2025	912,000	-	912,000
Thereafter	<u>1,989,000</u>	<u>-</u>	<u>1,989,000</u>
	<u>\$ 6,896,000</u>	<u>\$ 220,000</u>	<u>\$ 7,116,000</u>

Rent expense amounted to approximately \$1,218,000 and \$1,199,000 for the years ended December 31, 2020 and 2019, 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, 2020 and December 31, 2019, there were no borrowings. As of June 4, 2021, there was \$0 outstanding.
- C. Lambda Legal and its employees signed a collective bargaining agreement in 2019, which expires on June 30, 2022.
- D. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on Lambda Legal's business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, Lambda Legal is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. Lambda Legal's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. Lambda Legal continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On April 20, 2020, Lambda Legal received loan proceeds in the amount of \$1,919,910 under the Paycheck Protection Program ("PPP") established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) if the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. As of December 31, 2020, the outstanding balance was \$1,933,323, which includes accrued interest of \$13,413.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE (Continued)

Lambda Legal recognized the loan in accordance with Accounting Standards Codification ("ASC") 470, Debt. Accordingly, the proceeds of the PPP loan were recognized as loans payable on the accompanying statement of financial position and Lambda Legal will derecognize the liability when and to the extent that the loan is forgiven or paid off. Lambda Legal intends to comply with all requirements of loan forgiveness.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Time restrictions		
Beneficial interest in trusts	\$ 1,234,266	\$ 703,609
Other time restricted gifts	388,334	623,167
Purpose restrictions	-	230,288
Unappropriated earnings from donor-restricted endowment	62,430	152,918
Term endowment*	1,144,579	1,066,159
Donor-restricted endowment corpus	<u>423,090</u>	<u>423,090</u>
	<u>\$ 3,252,699</u>	<u>\$ 3,199,231</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, 2020 and 2019, by incurring expenses or the passage of time, thus satisfying the restricted purposes as follows:

	<u>2020</u>	<u>2019</u>
Regional Offices	\$ -	\$ 147,000
Fair Courts	-	175,000
Out of Youth	-	52,575
Law and Policy Project	-	67,282
DC Office	-	86,000
HIV Criminalization	230,288	531,782
Illinois Fair Senior Housing	-	100
Appropriation of endowment earnings	312,369	74,919
Time restrictions lifted	<u>464,833</u>	<u>967,434</u>
	<u>\$ 1,007,490</u>	<u>\$ 2,102,092</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.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets for the year ended December 31, 2020, are as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions			2020 Total
		Term Endowment	Unappropriated Earnings	Endowment Corpus	
Investment activity	\$ 672,642	\$ 130,788	\$ 169,512	\$ -	\$ 972,942
Appropriations from donor-restricted funds	312,368	(52,368)	(260,000)	-	-
Change in endowment net assets	985,010	78,420	(90,488)	-	972,942
Endowment net assets, beginning of year	6,703,380	1,066,159	152,918	423,090	8,345,547
Endowment net assets, end of year	<u>\$ 7,688,390</u>	<u>\$ 1,144,579</u>	<u>\$ 62,430</u>	<u>\$ 423,090</u>	<u>\$ 9,318,489</u>

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	(3,074,014)	-	-	-	(3,074,014)
Change in endowment net assets	(1,781,670)	66,147	56,680	-	(1,658,843)
Endowment net assets, beginning of year	8,485,050	1,000,012	96,238	423,090	10,004,390
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>

As of December 31, 2020 and 2019, endowment net assets of \$9,318,489 and \$8,345,547 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, 2020 and 2019.

NOTE 10 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$388,468 and \$391,741 (other than donated services) for informational materials and activities that were included in fundraising appeals during the years ended December 31, 2020 and 2019, respectively. Of these costs, \$242,286 and \$269,801 were allocated to program expenses and \$146,182 and \$121,940 were allocated to fundraising for the years ended December 31, 2020 and 2019, respectively, as prescribed by U.S. GAAP.

NOTE 11 – 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, 2020 and 2019, there was approximately \$2,943,000 and \$2,427,000, respectively, of cash held by the bank that exceeded FDIC limits. Such excess includes outstanding checks.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 – 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, 2020 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 2020</u>
Investments:			
Money market funds	\$ 1,316,239	\$ -	\$ 1,316,239
Common stock	4,785,846	-	4,785,846
Mutual funds – equities	4,843,637	-	4,843,637
Mutual funds – fixed income	3,164,478	-	3,164,478
U.S. government bonds	1,335,639	-	1,335,639
Corporate bonds	<u>-</u>	<u>1,146,234</u>	<u>1,146,234</u>
Total investments	<u>15,445,839</u>	<u>1,146,234</u>	<u>16,592,073</u>
Assets held for gift annuities:			
Money market funds	20,823	-	20,823
Common stock – equities	1,181,568	-	1,181,568
Fixed income – U.S. government bonds	354,883	-	354,883
Fixed income – corporate bonds	<u>-</u>	<u>690,497</u>	<u>690,497</u>
Total assets held for gift annuities	<u>1,557,274</u>	<u>690,497</u>	<u>2,247,771</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 17,003,113</u>	<u>\$ 1,836,731</u>	<u>\$ 18,839,844</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

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>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 10,030,105</u>	<u>\$ 1,096,147</u>	<u>\$ 11,126,252</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, 2020 and December 31, 2019, there were no transfers.

NOTE 13 – BENEFICIAL INTEREST IN TRUSTS

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

- A Charitable Remainder 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.
- A Charitable Remainder Trust from which a beneficiary is currently receiving 25% of the initial net-fair market value of the assets of such trust valued on the first business day of such taxable year.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 – PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Collectible in:		
Less than one year	\$ 1,914,049	\$ 898,507
One to five years	<u>135,000</u>	<u>238,333</u>
	2,049,049	1,136,840
Less: allowance for doubtful accounts	<u>(58,622)</u>	<u>(43,146)</u>
	<u>\$ 1,990,427</u>	<u>\$ 1,093,694</u>

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through June 4, 2021, the date the financial statements were available to be issued.