National Center for Lesbian Rights

Financial Statements &

Independent Auditor's Report

for the Year Ended

June 30, 2016

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, 2016, 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, 2016, 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.



A Professional Accountancy Corporation
September 19, 2016

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National Center for Lesbian Rights

Statement of Financial Position
June 30, 2016

ASSETS	
Current Assets:	
Cash & equivalents	$ 730,499
Marketable securities	199,128
Pledges & grants receivable, due within one year	617,447
Other receivables	8,671
Prepaid expenses & other current assets	39,957
Total current assets	1,595,702
Pledges & grants receivable, due in one to five years	310,000
Deposits, long-term	24,149
Property & equipment, net of accumulated depreciation of $64,771	22,608
Web site costs, net of accumulated amortization of $30,458	24,920
TOTAL ASSETS	$ 1,977,379
LIABILITIES & NET ASSETS	
Current Liabilities:	
Accounts payable	$ 84,318
Accrued payroll liabilities	344,135
Deferred rent (Note 2)	25,814
Loan payable (Note 3)	173,333
Total current liabilities	627,600
Line of credit (Note 4)	
TOTAL LIABILITIES	627,600
Net Assets	
Unrestricted	$ 179,253
Temporarily restricted (Note 5)	1,170,526
TOTAL NET ASSETS	1,349,779
TOTAL LIABILITIES & NET ASSETS	$ 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, 2016

	Unrestricted	Temporarily Restricted	Total
Support & Revenue:			
Contributions & grants	$ 2,533,191	$ 2,083,686	$ 4,616,877
Net assets released from restriction:			
Satisfaction of donor requirements	2,206,524	(2,206,524)	-
Special event, net of direct donor benefits of $297,647	(59,375)	279,245	219,870
Case fees	730,410		730,410
Program revenue	42,849		42,849
Investment income (Note 6)	9,226	2,004	11,230
Other income	5,205		5,205
Contributed goods (Note 7)	42,700		42,700
Total support & revenue before contributed services	5,510,730	158,411	5,669,141
Contributed services (Notes 2, 7)	3,970,752		3,970,752
Total support & revenue	9,481,482	158,411	9,639,893
Expenses:			
Program services	3,962,056		3,962,056
General & administrative	275,242		275,242
Fundraising	798,387		798,387
Total expenses before contributed services	5,035,685	-	5,035,685
Contributed services (Notes 2, 7)	3,970,752		3,970,752
Total expenses	9,006,437	-	9,006,437
CHANGE IN NET ASSETS	475,045	158,411	633,456
NET ASSETS, July 1	(295,792)	1,012,115	716,323
NET ASSETS, June 30	$ 179,253	$ 1,170,526	$ 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, 2016

	Program Services	General & Administrative	Fundraising	Total
Salaries	$ 2,100,288	$ 148,256	$ 222,383	$ 2,470,927
Payroll taxes	150,549	10,627	15,940	177,116
Benefits	372,752	26,312	39,468	438,532
Contract services	340,312	15,527	104,981	460,820
Case expenses	17,229	-	-	17,229
Grants awarded	10,000	-	-	10,000
Advertising & public relations	29,996	308	1,633	31,937
Occupancy	253,754	12,399	18,599	284,752
Books, dues & publications	62,059	315	473	62,847
Telephone & Internet	62,696	3,536	7,254	73,486
Information technology	111,446	5,014	38,205	154,665
Postage	12,817	609	1,587	15,013
Printing	810	-	412	1,222
Direct mail expenses	-	-	165,762	165,762
Supplies & equipment	47,646	3,444	7,250	58,340
Staff development	10,573	21	3,397	13,991
Travel	256,900	4,153	18,142	279,195
Conferences & meetings	37,751	969	4,870	43,590
Gala event production	-	-	86,677	86,677
Other event production	25,760	6	15,440	41,206
Insurance	29,471	2,080	3,120	34,671
Taxes & licenses	649	7,421	69	8,139
Bank fees & merchant charges	4,268	26,867	33,184	64,319
Bad debt	-	-	6,652	6,652
Depreciation & amortization	21,749	1,535	2,303	25,587
Miscellaneous expenses	2,581	5,843	586	9,010
Total expenses before contributed services	3,962,056	275,242	798,387	5,035,685
Contributed services (Notes 2, 7)	3,970,752			3,970,752
Total Expenses	$ 7,932,808	$ 275,242	$ 798,387	$ 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, 2016

Cash flows from operating activities:	
Change in net assets	$ 633,456
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation & amortization expense	25,587
Change in fair value of marketable securities	(7,259)
Changes in assets and liabilities:	
(Increase) decrease in grants & pledges receivable	174,401
(Increase) decrease in other receivables	5,707
(Increase) decrease in prepaid expenses & deposits	(726)
Increase (decrease) in accounts payable & accrued expenses	(54,721)
Increase (decrease) in deferred rent	(11,699)
Cash provided (used) by operating activities:	764,746
Cash flows from investing activities:	
Sales of marketable securities	108,917
Acquisition of property & equipment	(8,766)
Cash provided (used) by investing activities:	100,151
Cash flows from financing activities:	
Cash advances from line of credit	50,000
Repayments on loan	(226,667)
Cash provided (used) by financing activities:	(176,667)
Cash provided (used) during period	688,230
Cash and cash equivalents:	
Beginning of period, July 1	42,269
End of period, June 30	$ 730,499

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

National Center for Lesbian Rights

Notes to Financial Statements
June 30, 2016

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 nearly 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:

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

(continued)

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.

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.

(continued)

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 three-month rent abatement during the first two years 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 2017 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, mean 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.

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.

(continued)

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 2012, 2013, 2014 and 2015 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 2011, 2012, 2013, 2014, and 2015 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.

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 end in September 2016, at which point the remaining principal balance and any accrued interest will be due. As of June 30, 2016, the Organization's outstanding balance on this loan was $173,333.

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 21, 2016, and is renewable annually. As of June 30, 2016, there was no outstanding balance on the line of credit.

5. Temporarily Restricted Net Assets

As of June 30, 2016, temporarily restricted net assets consisted of contributions designated by donors for the following:

(continued)

General support for future periods	$777,450
Federal litigation coordination/trainings	200,000
Sports program	83,000
Pioneers in Justice Initiative	75,000
#BornPerfect Campaign	22,916
Other projects	12,160
Total	$1,170,526

6. Investment Income

Interest & dividends	$3,972
Unrealized gains	4,897
Realized gains	2,361
Total	$11,230

7. Contributed Goods and Services

NCLR received $42,700 of in-kind contributed food and beverages for the following events:

Annual Gala event	$27,200
Other fundraising and community events	15,500
Total	$42,700

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

Pro bono contributed services reported	$2,400,065
Estimate of additional contributed services (see Note 2)	1,570,687
Total	$3,970,752

8. Related Party Loan

In October 2015, the Organization received a $200,000 interest free loan from a current consultant and prior employee, for short-term cash flow support. This loan was repaid in January 2016.

(continued)

National Center for Lesbian Rights

Notes to Financial Statements
June 30, 2016

9. Leases

NCLR rents its San Francisco office under a five-year operating lease effective through May 2017. The May 2016 amended lease agreement calls for monthly rent at $17,193 for the remainder of the lease term.

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 $5,700 per month during 2016 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:

2016-2017	$267,150
2017-2018	59,417
2018-2019	1,756
Total future minimum lease payments	$328,323

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, 2016, the board and management did not make any employer contributions.

10. Contingencies

Investment Risk
NCLR has invested $199,128 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.

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 September 19, 2016, the date the financial statements were available to be issued.