



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

Years Ended December 31, 2022 and 2021

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

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

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Lambda Legal Defense and Education Fund, Inc.
New York, NY

Opinion

We have audited the financial statements of Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal") which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lambda Legal as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lambda Legal and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2R to the financial statements, Lambda Legal changed its method of accounting for leases as a result of the adoption of Accounting Standards Codification Topic 842, *Leases*, effective January 1, 2022, under the modified retrospective transition method. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lambda Legal's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Lambda Legal's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lambda Legal's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mayer Roffman McCann CPAs

New York, NY
June 27, 2023

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash (Note 12)	\$ 6,139,284	\$ 6,150,209
Pledges receivable, net (Notes 2K and 16)	4,257,166	2,174,502
Bequests receivable (Note 2H)	-	75,162
Prepaid expenses and other assets	1,103,493	1,038,813
Investments (Notes 2E, 2O, 4 and 14)	23,875,100	33,333,032
Assets held for gift annuities (Notes 2G, 4 and 14)	2,019,684	2,433,445
Beneficial interest in trusts (Notes 2I and 15)	1,126,411	1,323,315
Property and equipment, net (Notes 2D and 5)	990,120	512,123
Right of use asset (Notes 2R and 7)	4,932,031	-
	\$ 44,443,289	\$ 47,040,601
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,109,247	\$ 955,391
Accrued payroll and vacation	1,073,841	1,839,164
Deferred income (Note 2L)	25,375	42,685
Deferred rent	-	637,075
Liabilities under gift annuities (Note 2G)	1,147,458	1,299,463
Lease liability (Notes 2R and 7)	5,540,731	-
	8,896,652	4,773,778
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Note 2C)		
Without donor restrictions:		
Invested in property and equipment	990,120	512,123
Board designated (Note 10)	7,481,736	9,480,593
Operations	20,226,506	27,212,078
Total without donor restrictions	28,698,362	37,204,794
With donor restrictions (Note 10)	6,848,275	5,062,029
	35,546,637	42,266,823
	\$ 44,443,289	\$ 47,040,601

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, 2022 AND 2021

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total 2022	Without Donor Restrictions	With Donor Restrictions	Total 2021
OPERATING PUBLIC SUPPORT AND REVENUE:						
Special events revenue	\$ 5,639,280	\$ -	\$ 5,639,280	\$ -	\$ -	\$ -
Virtual events	-	-	-	4,047,709	-	4,047,709
Less: direct special event expenses	(729,622)	-	(729,622)	-	-	-
Net revenues from special events	4,909,658	-	4,909,658	4,047,709	-	4,047,709
Grants from foundations and corporations (Note 2K)	30,749	3,326,975	3,357,724	698,279	2,790,678	3,488,957
Contributions and memberships (Note 2K)	9,981,230	2,025,000	12,006,230	16,405,451	-	16,405,451
Donated professional services (Note 2F)	6,787,109	-	6,787,109	6,483,528	-	6,483,528
Attorney fees (Note 2J)	569,675	-	569,675	1,300,405	-	1,300,405
Contributions under gift annuities (Note 2G)	4,825	-	4,825	3,930	13,600	17,530
Other revenue	32,556	-	32,556	4,143	-	4,143
Loss on disposal (Note 5)	(52,600)	-	(52,600)	-	-	-
Net assets released from restrictions (Note 10)	2,923,365	(2,923,365)	-	1,235,717	(1,235,717)	-
TOTAL OPERATING PUBLIC SUPPORT AND REVENUE	25,186,567	2,428,610	27,615,177	30,179,162	1,568,561	31,747,723
OPERATING EXPENSES: (Note 2Q)						
Program Services:						
Legal (Including donated legal expenses of \$6,787,109 and \$6,483,528, respectively)	15,218,304	-	15,218,304	14,597,966	-	14,597,966
Educational	5,804,047	-	5,804,047	4,786,117	-	4,786,117
Total program services	21,022,351	-	21,022,351	19,384,083	-	19,384,083
Supporting Services:						
Management and general	4,856,898	-	4,856,898	3,599,853	-	3,599,853
Fundraising	5,907,365	-	5,907,365	5,432,423	-	5,432,423
Total supporting services	10,764,263	-	10,764,263	9,032,276	-	9,032,276
TOTAL OPERATING EXPENSES	31,786,614	-	31,786,614	28,416,359	-	28,416,359
EXCESS (DEFICIT) OF OPERATING PUBLIC SUPPORT AND REVENUE OVER OPERATING EXPENSES	(6,600,047)	2,428,610	(4,171,437)	1,762,803	1,568,561	3,331,364
NON-OPERATING ACTIVITY (Note 2P)						
Bequests (Note 2H)	3,127,551	-	3,127,551	9,647,637	-	9,647,637
Forgiveness of Paycheck Protection Program loan payable (Note 9)	-	-	-	1,933,323	-	1,933,323
Investment activity, net (Note 4)	(5,036,387)	(445,461)	(5,481,848)	3,819,047	165,322	3,984,369
Change in value of gift annuities (Note 2G)	2,451	(58,578)	(56,127)	(115,123)	-	(115,123)
Change in value of beneficial interest in trusts	-	(138,325)	(138,325)	-	75,447	75,447
TOTAL NON-OPERATING ACTIVITY	(1,906,385)	(642,364)	(2,548,749)	15,284,884	240,769	15,525,653
TOTAL CHANGE IN NET ASSETS	(8,506,432)	1,786,246	(6,720,186)	17,047,687	1,809,330	18,857,017
Net assets - beginning of year	37,204,794	5,062,029	42,266,823	20,157,107	3,252,699	23,409,806
NET ASSETS - END OF YEAR	\$ 28,698,362	\$ 6,848,275	\$ 35,546,637	\$ 37,204,794	\$ 5,062,029	\$ 42,266,823

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, 2022
(With Comparative Totals For the Year Ended December 31, 2021)

	For the Year Ended December 31, 2022							
	Program Services			Supporting Services			Total 2022	Total 2021
	Legal	Educational	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 4,744,217	\$ 2,655,016	\$ 7,399,233	\$ 1,472,048	\$ 2,311,669	\$ 3,783,717	\$ 11,182,950	\$ 10,698,211
Payroll taxes and employee benefits (Note 6)	<u>1,463,114</u>	<u>812,669</u>	<u>2,275,783</u>	<u>393,308</u>	<u>673,704</u>	<u>1,067,012</u>	<u>3,342,795</u>	<u>3,362,986</u>
Total Salaries and Related Costs	6,207,331	3,467,685	9,675,016	1,865,356	2,985,373	4,850,729	14,525,745	14,061,197
Donated professional services (Note 2F)	6,641,446	134,363	6,775,809	-	11,300	11,300	6,787,109	6,483,528
Printing and outreach	72,258	178,327	250,585	2	609,581	609,583	860,168	1,018,903
Occupancy (Note 7)	654,932	325,991	980,923	186,795	330,096	516,891	1,497,814	1,459,809
Professional services	842,697	1,395,212	2,237,909	1,924,160	744,077	2,668,237	4,906,146	2,961,124
Travel and meetings	171,469	69,561	241,030	181,442	322,554	503,996	745,026	305,223
Office supplies	10,277	5,401	15,678	3,009	6,092	9,101	24,779	34,003
Insurance	49,311	24,103	73,414	12,937	24,569	37,506	110,920	87,656
Equipment rental and repairs	24,446	15,876	40,322	6,491	12,342	18,833	59,155	60,691
Telecommunications	156,913	85,003	241,916	36,645	194,901	231,546	473,462	466,657
Dues and subscriptions	153,111	25,725	178,836	5,462	55,625	61,087	239,923	139,378
Credit card and bank charges	893	690	1,583	216,821	529	217,350	218,933	138,423
Postage	17,368	16,904	34,272	3,414	10,540	13,954	48,226	54,973
Equipment	29,082	22,305	51,387	7,656	14,673	22,329	73,716	93,808
Direct case expenses	112,366	-	112,366	-	-	-	112,366	130,604
Special event expenses	-	-	-	-	1,277,171	1,277,171	1,277,171	572,045
Bad debt	-	-	-	390,924	-	390,924	390,924	153,898
Depreciation and amortization (Note 5)	<u>74,404</u>	<u>36,901</u>	<u>111,305</u>	<u>15,784</u>	<u>37,564</u>	<u>53,348</u>	<u>164,653</u>	<u>194,439</u>
Subtotal	15,218,304	5,804,047	21,022,351	4,856,898	6,636,987	11,493,885	32,516,236	28,416,359
Less: Direct cost of special events reported net of revenue on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(729,622)</u>	<u>(729,622)</u>	<u>(729,622)</u>	<u>-</u>
TOTAL EXPENSES	<u>\$ 15,218,304</u>	<u>\$ 5,804,047</u>	<u>\$ 21,022,351</u>	<u>\$ 4,856,898</u>	<u>\$ 5,907,365</u>	<u>\$ 10,764,263</u>	<u>\$ 31,786,614</u>	<u>\$ 28,416,359</u>

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total 2021</u>
	<u>Legal</u>	<u>Educational</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 4,550,916	\$ 2,526,918	\$ 7,077,834	\$ 1,435,415	\$ 2,184,962	\$ 3,620,377	\$ 10,698,211
Payroll taxes and employee benefits (Note 6)	<u>1,472,377</u>	<u>847,053</u>	<u>2,319,430</u>	<u>283,654</u>	<u>759,902</u>	<u>1,043,556</u>	<u>3,362,986</u>
Total Salaries and Related Costs	6,023,293	3,373,971	9,397,264	1,719,069	2,944,864	4,663,933	14,061,197
Donated professional services (Note 2F)	6,483,528	-	6,483,528	-	-	-	6,483,528
Printing and outreach	483,556	122,775	606,331	-	412,572	412,572	1,018,903
Occupancy (Note 7)	623,829	250,271	874,100	141,052	444,657	585,709	1,459,809
Professional services	337,547	823,735	1,161,282	1,206,754	593,088	1,799,842	2,961,124
Travel and meetings	46,829	23,292	70,121	141,275	93,827	235,102	305,223
Office supplies	14,652	6,001	20,653	2,896	10,454	13,350	34,003
Insurance	37,473	15,048	52,521	8,400	26,735	35,135	87,656
Equipment rental and repairs	25,945	10,419	36,364	5,816	18,511	24,327	60,691
Telecommunications	150,197	61,804	212,001	51,620	203,036	254,656	466,657
Dues and subscriptions	110,029	19,007	129,036	1,867	8,475	10,342	139,378
Credit card and bank charges	-	-	-	138,423	-	138,423	138,423
Postage	11,254	23,487	34,741	2,058	18,174	20,232	54,973
Equipment	36,108	22,929	59,037	8,089	26,682	34,771	93,808
Direct case expenses	130,604	-	130,604	-	-	-	130,604
Special event expense	-	-	-	-	572,045	572,045	572,045
Bad debt	-	-	-	153,898	-	153,898	153,898
Depreciation and amortization (Note 5)	<u>83,122</u>	<u>33,378</u>	<u>116,500</u>	<u>18,636</u>	<u>59,303</u>	<u>77,939</u>	<u>194,439</u>
TOTAL EXPENSES	<u>\$ 14,597,966</u>	<u>\$ 4,786,117</u>	<u>\$ 19,384,083</u>	<u>\$ 3,599,853</u>	<u>\$ 5,432,423</u>	<u>\$ 9,032,276</u>	<u>\$ 28,416,359</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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,720,186)	\$ 18,857,017
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	164,653	194,439
Change in value of gift annuities	56,127	115,123
Change in value of beneficial interest in trusts	138,325	(75,447)
Net realized and unrealized loss (gain) on investments and gift annuities	5,697,360	(3,825,638)
Deferred rent	-	(36,091)
Bad debt expense	390,924	153,898
Loss on disposal of property and equipment	52,600	-
Forgiveness of Paycheck Protection Program loan	-	(1,933,323)
Donated investments	(205,847)	-
	(426,044)	13,449,978
Changes in operating assets and liabilities:		
(increase) decrease in assets:		
Pledges receivable	(2,473,588)	(337,973)
Bequests receivable	75,162	2,359,498
Prepaid expenses and other assets	(64,680)	(179)
Right of use asset	(4,932,031)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	153,856	(38,305)
Accrued payroll and vacation	(765,323)	751,281
Deferred income	(17,310)	36,018
Lease liability	4,903,656	-
	(3,546,302)	16,220,318
Net Cash (Used in) Provided by Operating Activities	(3,546,302)	16,220,318
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	53,593,165	123,950,468
Purchase of investments	(49,626,746)	(136,865,789)
Purchase of property and equipment and leasehold improvements	(695,250)	(81,068)
	3,271,169	(12,996,389)
Net Cash Provided by (Used in) Investing Activities	3,271,169	(12,996,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (payments) on annuities and trusts	264,208	(347,772)
	264,208	(347,772)
Net Cash Provided by (Used in) Financing Activities	264,208	(347,772)
NET (DECREASE) INCREASE IN CASH	(10,925)	2,876,157
Cash - beginning of year	6,150,209	3,274,052
CASH - END OF YEAR	\$ 6,139,284	\$ 6,150,209

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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 living 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 in marketable securities 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. Lambda Legal holds equity interests in private companies without a readily determinable fair value. These assets are valued at cost less impairment under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 321-10-35-2.
- 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, 2022 AND 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lambda Legal's entire gift annuity program consisted of assets amounting to \$2,019,684 and \$2,433,445 and liabilities of \$1,147,458 and \$1,299,463 as of December 31, 2022 and 2021, respectively. Contribution revenue amounted to \$4,825 and \$17,530 for the years ended December 31, 2022 and 2021, 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 contribution revenue.
- I. Lambda Legal's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts held by third parties. Charitable remainder unitrust gifts are time-restricted contributions not available to Lambda Legal until after the death of the donor and other beneficiaries, who, while living, receive payouts from the trust based on a fixed percentage of the market value of the invested funds each year as stated in the trust agreements. The trust agreements, in certain instances, allow for the beneficiaries to receive additional distributions, which may substantially reduce the value of expected future cash flows.

Lambda Legal recognizes as assets and contributions to net assets with donor restrictions the fair value of the trusts based on the present value of the estimated expected future cash flows from the trusts' assets. The present value is calculated using risk-adjusted discount rates based on the term of the trust. Distributions received by Lambda Legal are net assets without donor restrictions unless specified otherwise in the trust documents.

- J. Attorneys' fees are amounts awarded by a court when Lambda Legal's clients prevail in a case or amounts paid by opposing parties as part of the settlement of litigation in which attorneys' fees could be awarded that compensate Lambda Legal for time spent representing its clients and can include reimbursement of actual expenses incurred by Lambda Legal in connection with such legal representation.
- K. Contributions and grants are nonexchange transactions and accounted for under FASB Accounting Standards Update ("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 \$144,000 and \$50,000 was necessary as of December 31, 2022 and 2021, 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. 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.
- N. 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 14.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- O. Lambda Legal considers all money market funds to be investments.
- P. 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, changes in value of gift annuities, beneficial interest in trusts and forgiveness of the Paycheck Protection Program loan payable are recognized as non-operating activities.
- Q. 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.
- R. Lambda Legal adopted FASB ASU 2016-02, *Leases* (Topic 842) for the year ended December 31, 2022. The ASU requires organizations that lease assets to recognize the present value of the assets and liabilities for the rights and obligations created by those leases. Lambda Legal adopted Topic 842 for the year ended December 31, 2022, which required the recognition of lease assets and liabilities as of that date. The lease assets and liabilities on December 31, 2022 totaled \$4,932,031 and \$5,540,731, respectively. The adoption of Topic 842 had no effect on the change in net assets as previously reported.
- S. Lambda Legal adopted FASB ASU 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (“Gift-in-Kind”)* for the year ended December 31, 2022. The core guidance in ASU 2020-07 is to increase transparency around contributed nonfinancial assets (also known as “gift-in-kind”) received by not-for-profit (“NFP”) organizations, including transparency on how those assets are used and how they are valued. ASU 2020-07 improved financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for nonprofits.

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, 2022 and 2021, respectively.

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

	<u>2022</u>	<u>2021</u>
Cash	\$ 6,139,284	\$ 6,150,209
Pledges receivable, net	4,257,166	2,174,502
Bequests receivable	-	75,162
Investments	23,875,100	33,333,032
Assets held for gift annuities	<u>2,019,684</u>	<u>2,433,445</u>
Total financial assets	36,291,234	44,166,350
Less: pledges receivable due in more than one year	(1,760,000)	(410,000)
Less: endowment investments	(8,740,901)	(11,171,088)
Less: assets held for gift annuities	<u>(2,019,684)</u>	<u>(2,433,445)</u>
	<u>\$ 23,770,649</u>	<u>\$ 30,151,817</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 4 – INVESTMENTS AND ASSETS HELD FOR GIFT ANNUITIES

Investments consist of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 2,924,173	\$ 2,696,462
Common stock	12,326,723	16,647,951
Mutual funds – equities	-	4,081,509
Mutual funds – fixed income	13,939	901,326
U.S. government bonds	5,246,389	5,383,152
Corporate bonds	3,158,029	3,622,632
Other investments held at cost	<u>205,847</u>	<u>-</u>
	<u>\$ 23,875,100</u>	<u>\$ 33,333,032</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>2022</u>	<u>2021</u>
Money market funds	\$ 16,947	\$ 62,005
Common stock	1,237,969	1,479,664
U.S. government bonds	353,135	392,119
Corporate bonds	<u>411,633</u>	<u>499,657</u>
	<u>\$ 2,019,684</u>	<u>\$ 2,433,445</u>

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 355,974	\$ 326,534
Unrealized loss on investments	(2,963,730)	(745,696)
Realized (loss) gain on investment sales	(2,442,454)	4,261,533
Investment management fees	<u>(173,274)</u>	<u>(201,112)</u>
Sub-total	<u>(5,223,484)</u>	<u>3,641,259</u>

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 32,812	\$ 33,309
Unrealized (loss) gain on investments	(323,756)	91,533
Realized gain on investment sales	<u>32,580</u>	<u>218,268</u>
Sub-total	<u>(258,364)</u>	<u>343,110</u>
Total investment activity, net	<u>\$ (5,481,848)</u>	<u>\$ 3,984,369</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.

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

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

	<u>2022</u>	<u>2021</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 845,090	\$ 1,198,915	3-5 years
Website	492,050	-	
Leasehold improvements	<u>1,013,964</u>	<u>928,659</u>	5-15 years
Total cost	2,351,104	2,127,574	
Less: accumulated depreciation and amortization	<u>(1,360,984)</u>	<u>(1,615,451)</u>	
Net book value	<u>\$ 990,120</u>	<u>\$ 512,123</u>	

Depreciation and amortization expense amounted to \$164,653 and \$194,439 for the years ended December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, Lambda Legal disposed of and wrote off fixed assets of \$117,107 with accumulated depreciation of \$64,507, resulting in a loss of \$52,600 from the disposal. During the years ended December 31, 2022 and 2021, \$354,613 and \$131,576 of fully depreciated equipment no longer in service was written off, respectively.

NOTE 6 – PENSION PLAN

Lambda Legal maintains a qualified defined contribution pension plan covering all eligible employees after 90 days of service. Employees vest over a multiyear period. For the years ended December 31, 2022 and 2021, Lambda Legal's contributions amounted to approximately \$207,000 and \$239,000, respectively.

NOTE 7 – OPERATING LEASES

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. These leases include rent escalations. Lambda Legal assesses whether an arrangement qualifies as a lease at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. As a result, adopting Topic 842 had no impact on the prior year statement of financial position information, and because these leases are operating leases, the adoption of the standard had no impact on the Lambda Legal's change in net assets. Comparative information provided in the following paragraphs was determined using the accounting principles in effect as of and for the year ended December 31, 2021 (i.e. ASC 840). No comparative information is provided for the amounts reported on the statement of financial position as of December 31, 2021 since Lambda Legal used the modified retrospective method of transition that does not require restating the prior period.

As of December 31, 2022, the right-of-use ("ROU") asset had a balance of \$4,932,031. The lease liability totaled \$5,540,731 as reflected in the accompanying statement of financial position. As of December 31, 2022, the lease liabilities were calculated utilizing the risk-free rate in effect at the initial adoption date of January 1, 2022. The weighted average of the remaining lease term is 66 months, and the weighted average discount rate is 1.47%.

Future minimum payments for non-cancelable operating leases for the next five years ending after December 31, 2022 and thereafter are as follows:

2023	\$ 1,082,738
2024	1,089,816
2025	1,096,975
2026	1,104,219
2027	679,168
Thereafter	<u>728,510</u>
Total lease payments	5,781,426
Less: Present value discount	<u>(240,695)</u>
Present value of lease liabilities	<u>\$ 5,540,731</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 7 – OPERATING LEASES (Continued)

Rent expense consists of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Real property	\$ 1,195,969	\$ 1,174,968
Equipment	96,500	43,100
	<u>\$ 1,292,469</u>	<u>\$ 1,218,068</u>

Such amounts are included in occupancy and equipment rental and repairs in the accompanying statements of functional expenses.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

- A. 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, 2022 and 2021, there were no borrowings. As of June 27, 2023, there was \$0 outstanding.
- B. Lambda Legal and its employees signed a collective bargaining agreement in 2019, which expired on June 30, 2022. The agreement was extended through August 31, 2023.

NOTE 9 – 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. Lambda Legal recognized the loan in accordance with ASC 470, Debt. Accordingly, the proceeds of the PPP loan were recognized as PPP loan payable on the accompanying statement of financial position and Lambda Legal derecognized the liability when the loan was forgiven. On September 8, 2021, Lambda Legal received forgiveness for the entire amount.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS AND ENDOWMENT

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

	<u>2022</u>	<u>2021</u>
Time restrictions		
Beneficial interest in trusts	\$ 1,126,411	\$ 1,323,315
Other time restricted gifts	1,615,000	530,000
Purpose restrictions	2,847,699	1,518,219
Unappropriated earnings from donor-restricted endowment	(84,737)	195,128
Term endowment*	895,812	1,072,277
Donor-restricted endowment corpus	<u>448,090</u>	<u>423,090</u>
	<u>\$ 6,848,275</u>	<u>\$ 5,062,029</u>

* During 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 the investment to fund the Legal fellowship. After 2028, Lambda Legal may use the remaining portion of the gift for other restricted purposes.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS AND ENDOWMENT (Continued)

Net assets of \$2,923,365 and \$1,235,717 were released from restrictions during the years ended December 31, 2022 and 2021, respectively, by incurring expenses or the passage of time, thus satisfying the restricted purposes.

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 donor-restricted endowment funds, if not otherwise restricted by the donor, are reflected as net assets with donor restrictions until appropriated by the Board of Directors. Accordingly, all investment earnings on the donor-restricted 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.

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions			2022 Total
		Term Endowment	Unappropriated Earnings	Endowment Corpus	
Investment activity	\$ (2,091,626)	\$ (176,026)	\$ (269,435)	\$ -	\$ (2,537,087)
Additions	-	81,900	-	25,000	106,900
Appropriations from donor-restricted funds	92,769	(82,339)	(10,430)	-	-
Change in endowment net assets	(1,998,857)	(176,465)	(279,865)	25,000	(2,430,187)
Endowment net assets, beginning of year	9,480,593	1,072,277	195,128	423,090	11,171,088
Endowment net assets, end of year	\$ 7,481,736	\$ 895,812	\$ (84,737)	\$ 448,090	\$ 8,740,901

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions			2021 Total
		Term Endowment	Unappropriated Earnings	Endowment Corpus	
Investment activity	\$ 1,687,277	\$ 9,898	\$ 155,424	\$ -	\$ 1,852,599
Appropriations from donor-restricted funds	104,926	(82,200)	(22,726)	-	-
Change in endowment net assets	1,792,203	(72,302)	132,698	-	1,852,599
Endowment net assets, beginning of year	7,688,390	1,144,579	62,430	423,090	9,318,489
Endowment net assets, end of year	\$ 9,480,593	\$ 1,072,277	\$ 195,128	\$ 423,090	\$ 11,171,088

As of December 31, 2022 and 2021, endowment net assets of \$8,740,901 and \$11,171,088 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, 2022 and 2021.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$345,409 and \$382,494 (other than donated services) for informational materials and activities that were included in fundraising appeals during the years ended December 31, 2022 and 2021, respectively. Of these costs, \$127,698 and \$152,803 were allocated to program expenses and \$217,711 and \$229,691 were allocated to fundraising for the years ended December 31, 2022 and 2021, respectively, as prescribed by U.S. GAAP.

NOTE 12 – 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, 2022 and 2021, there was approximately \$5,842,000 and \$5,855,000, respectively, of cash held by the bank that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 13 – DONATED SERVICES

Donated services for the year ended December 31, 2022 consisted of the following:

<u>Nonfinancial Asset</u>	<u>Amount</u>	<u>Usage in Programs/Activities</u>	<u>Donor-imposed Restrictions</u>	<u>Fair Value Techniques</u>
Donated professional services	\$ 6,787,109	Various positions in programs	No associated donor restrictions	Based on hourly rates

Donated services for the year ended December 31, 2021 consisted of the following:

<u>Nonfinancial Asset</u>	<u>Amount</u>	<u>Usage in Programs/Activities</u>	<u>Donor-imposed Restrictions</u>	<u>Fair Value Techniques</u>
Donated professional services	\$ 6,483,528	Various positions in programs	No associated donor restrictions	Based on hourly rates

NOTE 14 – 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.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

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, 2022 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 2022</u>
Investments:			
Money market funds	\$ 2,924,173	\$ -	\$ 2,924,173
Common stock	12,326,723	-	12,326,723
Mutual funds – fixed income	13,939	-	13,939
U.S. government bonds	5,246,389	-	5,246,389
Corporate bonds	<u>-</u>	<u>3,158,029</u>	<u>3,158,029</u>
Total investments	<u>20,511,224</u>	<u>3,158,029</u>	<u>23,669,253</u>
Assets held for gift annuities:			
Money market funds	16,947	-	16,947
Common stock	1,237,969	-	1,237,969
Fixed income – U.S. government bonds	353,135	-	353,135
Fixed income – corporate bonds	<u>-</u>	<u>411,633</u>	<u>411,633</u>
Total assets held for gift annuities	<u>1,608,051</u>	<u>411,633</u>	<u>2,019,684</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 22,119,275</u>	<u>\$ 3,569,662</u>	<u>\$ 25,688,937</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets and liabilities are carried at fair value at December 31, 2021 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 2021</u>
Investments:			
Money market funds	\$ 2,696,462	\$ -	\$ 2,696,462
Common stock	16,647,951	-	16,647,951
Mutual funds – equities	4,081,509	-	4,081,509
Mutual funds – fixed income	901,326	-	901,326
U.S. government bonds	5,383,152	-	5,383,152
Corporate bonds	<u>-</u>	<u>3,622,632</u>	<u>3,622,632</u>
Total investments	<u>29,710,400</u>	<u>3,622,632</u>	<u>33,333,032</u>
Assets held for gift annuities:			
Money market funds	62,005	-	62,005
Common stock	1,479,664	-	1,479,664
Fixed income – U.S. government bonds	392,119	-	392,119
Fixed income – corporate bonds	<u>-</u>	<u>499,657</u>	<u>499,657</u>
Total assets held for gift annuities	<u>1,933,788</u>	<u>499,657</u>	<u>2,433,445</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 31,644,188</u>	<u>\$ 4,122,289</u>	<u>\$ 35,766,477</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, 2022 and 2021, there were no transfers.

NOTE 15 – 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.

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NOTE 16 – PLEDGES RECEIVABLE

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

	<u>2022</u>	<u>2021</u>
Collectible in:		
Less than one year	\$ 2,875,404	\$ 1,825,378
One to five years	<u>1,760,000</u>	<u>410,000</u>
	4,635,404	2,235,378
Less: Discount on pledges (4.49% and 1.69%, respectively)	(233,834)	(10,846)
Less: allowance for doubtful accounts	<u>(144,404)</u>	<u>(50,030)</u>
	<u>\$ 4,257,166</u>	<u>\$ 2,174,502</u>

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through June 27, 2023, the date the financial statements were available to be issued.