



**LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

**FOR THE YEAR ENDED OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)**

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.

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

**FOR THE YEAR ENDED OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)**

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Marks Paneth
& Shron LLP

*Certified Public Accountants
and Consultants*

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of the Lambda Legal Defense and Education Fund, Inc. ("Lambda Legal") as of October 31, 2005, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Lambda Legal's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Lambda Legal's October 31, 2004 financial statements and, in our report dated November 24, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lambda Legal Defense and Education Fund, Inc. as of October 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth & Shron LLP

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November 30, 2005

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LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)

	2005	2004
ASSETS		
Cash (Note 10)	\$ 386,067	\$ 229,289
Pledges receivable - individuals (Note 2K)	40,785	91,000
Grants receivable - foundations and corporations (Note 2K)	36,250	200,000
Bequest receivable (Note 2H)	200,000	-
Prepaid expenses and other assets	152,786	137,337
Property and equipment, net (Notes 2D and 4)	266,098	340,246
Investments, at market (Notes 2E and 3)	2,127,096	2,441,214
Assets held for gift annuities (Note 2G)	422,757	97,328
TOTAL ASSETS	\$ 3,631,839	\$ 3,536,414
LIABILITIES		
Accounts payable and accrued expenses	\$ 385,651	\$ 254,609
Accrued payroll and vacation	259,396	223,185
Deferred income	-	39,839
Deferred rent (Note 2L)	91,266	106,477
Liabilities under gift annuities (Note 2G)	251,659	58,275
TOTAL LIABILITIES	987,972	682,385
COMMITMENTS (Note 6)		
NET ASSETS (Note 2C)		
Unrestricted	2,324,152	2,615,847
Temporarily restricted (Note 7)	256,533	175,000
Permanently restricted	63,182	63,182
TOTAL NET ASSETS	2,643,867	2,854,029
TOTAL LIABILITIES AND NET ASSETS	\$ 3,631,839	\$ 3,536,414

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)

For the Year Ended October 31, 2005					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2005	Total 2004
PUBLIC SUPPORT AND REVENUE:					
Special events revenue	\$ 2,987,797	-	-	\$ 2,987,797	\$ 2,461,312
Less: costs of direct benefits to donors. (Note 2I)	(422,731)	-	-	(422,731)	(375,356)
Net revenues from special events	2,565,066	-	-	2,565,066	2,085,956
Grants from foundations and corporations (Note 2B)	916,549	1,037,400	-	1,953,949	1,981,841
Contributions and memberships (Note 2B)	4,449,673	21,074	-	4,470,747	4,685,336
Bequests (Note 2H)	516,176	-	-	516,176	256,798
Donated services (Notes 2F and 8)	3,172,181	-	-	3,172,181	2,790,299
Attorney fees (Note 2J)	15,140	-	-	15,140	115,353
Revenue under gift annuities (Note 2G)	136,230	-	-	136,230	36,450
Investment activity (Note 3)	74,542	-	-	74,542	29,542
Change in value of gift annuities (Note 2G)	(3,721)	-	-	(3,721)	1,098
Other revenue	1,060	-	-	1,060	12,359
Net assets released from restrictions (Note 7)	976,941	(976,941)	-	-	-
	12,819,837	81,533	-	12,901,370	11,995,032
TOTAL PUBLIC SUPPORT AND REVENUE					
EXPENSES:					
Program Services:					
Legal	5,893,882	-	-	5,893,882	5,482,244
Educational	4,105,352	-	-	4,105,352	3,005,299
Total program services	9,999,234	-	-	9,999,234	8,487,543
Supporting Services:					
Management and general	947,180	-	-	947,180	1,026,102
Fundraising	1,939,042	-	-	1,939,042	1,995,209
Special events (Note 2I)	226,076	-	-	226,076	195,290
Total Supporting Services	3,112,298	-	-	3,112,298	3,216,601
TOTAL EXPENSES	13,111,532	-	-	13,111,532	11,704,144
CHANGE IN NET ASSETS	(291,695)	81,533	-	(210,162)	290,888
Net assets - beginning of year	2,615,847	175,000	63,182	2,854,029	2,563,141
NET ASSETS - END OF YEAR	\$ 2,324,152	\$ 256,533	\$ 63,182	\$ 2,643,867	\$ 2,854,029

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)

	For the Year Ended October 31, 2005						Total 2004	
	Program Services			Supporting Services				
	Legal	Educational	Total Program Services	Management and General	Fund Raising	Special Events	Total Supporting Services	Total 2005
Salaries	\$ 2,077,993	\$ 1,766,294	\$ 3,844,287	\$ 519,498	\$ 831,198	\$ -	\$ 1,350,696	\$ 5,194,983
Payroll taxes and employee benefits (Note 5)	564,649	485,019	1,049,668	162,163	226,457	-	388,620	1,438,288
Total Salaries and Related Costs	2,642,642	2,251,313	4,893,955	681,661	1,057,655	-	1,739,316	6,633,271
Occupancy (Note 6)	211,606	179,865	391,471	52,901	84,642	-	137,543	529,014
Professional services	20,662	122,481	143,143	16,330	140,998	81,347	238,635	381,778
Travel and meetings	81,673	73,750	155,423	16,619	29,767	17,129	63,515	218,938
Office supplies	25,224	22,453	47,677	6,604	10,566	-	17,170	64,847
Insurance	20,568	17,474	38,032	5,139	8,224	-	13,363	51,395
Equipment rental and repairs	19,233	16,348	35,581	4,808	7,694	-	12,502	48,083
Telecommunications	64,097	54,484	118,581	15,982	25,639	-	41,621	160,202
Dues and subscriptions	27,929	3,437	31,366	3,693	3,858	-	7,551	38,917
Credit card and bank charges	-	-	-	106,371	-	-	106,371	106,371
Donated services (Notes 2F and 8)	-	-	-	-	-	-	-	-
Postage	16,138	18,136	34,274	5,191	30,443	45,233	80,867	115,141
Printing and outreach	12,149	751,897	764,046	2,981	500,357	82,367	585,705	1,349,751
Direct case expenses	117,644	-	117,644	-	-	-	-	117,644
Costs of direct benefits to donors	-	-	-	-	-	422,731	422,731	422,731
Bad debt expense	-	-	-	-	-	-	-	-
Depreciation and amortization	49,600	42,160	91,760	12,400	19,839	-	32,239	123,999
Sub-total	3,309,155	3,553,798	6,862,953	930,680	1,919,642	648,807	3,499,129	10,362,082
Less: expenses deducted directly from revenues on the statement of activities	-	-	-	-	-	(422,731)	(422,731)	(422,731)
TOTAL EXPENSES	\$ 3,309,155	\$ 3,553,798	\$ 6,862,953	\$ 930,680	\$ 1,919,642	\$ 226,076	\$ 3,076,398	\$ 9,939,351
								\$ 11,334,034

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

LAMDBA LEGAL DEFENSE AND EDUCATION FUND, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2005
(With Comparative Totals for Fiscal 2004)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (210,162)	\$ 290,888
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	123,998	144,698
Change in value of gift annuities	3,721	(1,098)
Non-cash contributions to annuities	(12,747)	(26,230)
Net realized and unrealized loss on investments	9,181	8,671
Donated investments	(174,683)	(570,506)
Sub-total	(260,692)	(153,577)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Pledges receivable - individuals	50,215	(51,000)
Grants receivable - foundations and corporations	163,750	(130,000)
Bequest receivable	(200,000)	-
Prepaid expenses and other assets	(15,449)	(16,134)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	131,042	(121,392)
Accrued payroll and vacation	36,211	17,672
Deferred income	(39,839)	39,839
Deferred rent	(15,211)	(15,211)
Net Cash Used by Operating Activities	(149,973)	(429,803)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investment sales	820,703	1,410,707
Purchase of investments	(657,486)	(1,457,929)
Purchase of property and equipment	(49,850)	(28,857)
Net Cash Provided (Used) by Investing Activities	113,367	(76,079)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities and trusts	(14,292)	(1,437)
Proceeds from issuance of annuities	207,676	59,712
Net Cash Provided by Financing Activities	193,384	58,275
NET INCREASE (DECREASE) IN CASH	156,778	(447,607)
Cash - beginning of year	229,289	676,896
CASH - END OF YEAR	\$ 386,067	\$ 229,289

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

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Lambda Legal's financial statements have been prepared on the accrual basis of accounting. Lambda Legal adheres to accounting policies generally accepted in the United States of America which include some specialized requirements described fully in publications of the Financial Accounting Standards Board and the American Institute of Certified Public Accountants.
- B. Lambda Legal reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Accordingly, even if a restriction is fulfilled in the same time period in which the contribution is received, Lambda Legal reports the support as temporarily restricted, as well as released from restrictions.
- C. Lambda Legal maintains its net assets under the following three classes:
- Unrestricted – net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
 - Temporarily Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Lambda Legal pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.
 - Permanently Restricted – net assets resulting from contributions and other inflows of assets whose use by Lambda Legal is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Lambda Legal.
- D. Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Contributed fixed assets are stated at fair value at the date of gift. Lambda Legal has established a \$1,000 threshold above which assets are capitalized. Purchases below \$1,000 are expensed at the time of acquisition. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. Remaining property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.
- E. Investments are reported at quoted market value.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- F. Lambda Legal records contributed items at their fair value on the date of receipt. Lambda Legal also receives contributed services that are an integral part of its operations. Such services are only recorded as contributions in kind (at their fair value) provided they meet the criteria for recognition. Donated services received are estimated at \$3,172,181 and \$2,790,299 for the years ended October 31, 2005 and 2004, respectively and are reflected as donated services as both income and expense in the accompanying financial statements.
- G. Lambda Legal has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed-dollar annual return of the gift assets during their lifetimes. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of the gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the statement of activities.

In addition, during fiscal 2005, Lambda Legal was the recipient of a deferred charitable lead trust. Under the terms of this agreement, Lambda Legal received \$20,000 for its unrestricted use. Commencing in September 2015, Lambda Legal will make annual payments of \$1,940 until the donor's demise. If the donor dies before September 2015, Lambda Legal is released from all obligations under this agreement.

Regarding the above-mentioned agreements, Lambda Legal recorded an asset amounting to \$422,757 and a liability of \$251,659 as of October 31, 2005. Contribution income of \$136,230 and \$36,450 for the years ended October 31, 2005 and 2004, respectively, were also recorded.

- H. Legacies and bequests are recognized when Lambda Legal is notified that all disputes are resolved and funds are forthcoming. Accordingly, bequests are accrued when Wills have passed through probate and legal counsel has confirmed amounts held on behalf of Lambda Legal.
- I. The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events.
- J. Attorney fees represent settlements that courts grant Lambda Legal after successfully trying a case. These funds are awarded to Lambda Legal to reimburse for legal fees incurred.
- K. Pledges are recorded as revenue when the pledge is made. Unless material, Lambda Legal does not discount pledges receivable to present value. Historically, Lambda Legal has not experienced significant bad debt losses. Lambda Legal bases its allowance for doubtful accounts on its historical loss experience considering the age of the receivables. Pledges receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Lambda Legal has determined that an allowance of \$4,600 and \$0 was necessary as of October 31, 2005 and 2004, respectively.
- L. Lambda Legal leases its New York City office whereby the landlord provided a free rent period of 15 months. Lambda Legal reflected a liability for this free rent period that it amortizes on a straight-line basis over the life of the lease which expires in 2011.
- M. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- N. The fiscal 2005 financial statements include certain prior-year summarized comparative information in total but not in detail for the statements of activities and functional expenses. In addition, certain notes to the financial statements do not contain full detail for fiscal 2004. As a result, the fiscal 2004 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such fiscal 2004 information should be read in conjunction with Lambda Legal's financial statements for the year ended October 31, 2004, from which the summarized information was derived.
- O. Certain line items in the 2004 financial statements were reclassified to conform to the 2005 presentation.

NOTE 3 - INVESTMENTS

Investments consist of the following as of October 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Money market funds	\$ 1,514,190	\$ 1,666,814
Mutual funds	317,291	327,172
Certificates of deposit	-	147,626
Corporate bonds	99,753	99,582
U.S. Government bonds and bond mutual funds	<u>195,862</u>	<u>200,020</u>
	<u>\$ 2,127,096</u>	<u>\$ 2,441,214</u>

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

Investment activity consists of the following for the years ended October 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 83,723	\$ 38,213
Unrealized (loss)/gain on investments	(8,402)	14,235
Realized loss on investment sales	<u>(779)</u>	<u>(22,906)</u>
	<u>\$ 74,542</u>	<u>\$ 29,542</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of October 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures, and equipment	\$ 752,798	\$ 710,514	3-5 years
Leasehold improvements	<u>391,586</u>	<u>384,020</u>	5-15 years
Total cost	1,144,384	1,094,534	
Less: accumulated depreciation and amortization	<u>(878,286)</u>	<u>(754,288)</u>	
Net book value	<u>\$ 266,098</u>	<u>\$ 340,246</u>	

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005

NOTE 5 – PENSION PLAN

Lambda Legal maintains a qualified defined contribution pension plan covering all eligible employees after one year of service. Employees vest over a multi-year period. Lambda Legal makes discretionary contributions to this plan based on an approval by the Board of Directors. During the years ended October 31, 2005 and 2004, Lambda Legal contributed 10% of the participating employee's salary which amounted to approximately \$372,000 and \$314,000, respectively.

NOTE 6 – COMMITMENTS

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

Minimum annual rentals related to the above leases are as follows for years ended subsequent to October 31, 2005:

2006	\$ 449,073
2007	464,822
2008	344,495
2009	344,649
2010	347,906
Thereafter	<u>372,866</u>
	<u>\$ 2,323,811</u>

Rent expense for the years ended October 31, 2005 and 2004 amounted to approximately \$437,000 and \$428,000, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes (or are time restricted) as of October 31, 2005:

Transgender Rights	\$ 31,533
Relationship Recognition (also time restricted for fiscal 2006)	200,000
Youth in Foster Care (also time restricted for fiscal 2006)	<u>25,000</u>
	<u>\$ 256,533</u>

Net assets were released from restrictions during the year ended October 31, 2005 by incurring expenses or the passage of time thus satisfying the restricted purposes as follows:

Relationship Recognition	\$ 322,999
Youth in Foster Care	50,000
Youth and Schools	75,075
HIV Project	72,900
Proyecto Igualdad	20,000
Courting Justice Campaign	150,000
Parents & Children	15,000
Workplace Equality	25,000
Transgender Rights	8,467
Western Regional Office	6,000
Southern Regional Office	4,000
Midwest Regional Office	52,500
Period ended October 31, 2005	<u>175,000</u>
	<u>\$ 976,941</u>

LAMBDA LEGAL DEFENSE AND EDUCATION FUND, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2005

NOTE 8 – DONATED SERVICES

Some of the program services provided by Lambda Legal are furnished by lawyers and other professionals who, working under the supervision and guidance of Lambda Legal staff members, perform their services free of cost. The value of the majority of these services, as documented by the lawyers providing them, has been reflected as revenues and expenses amounting to \$2,474,909 for the year ended October 31, 2005.

Additional services have been donated to Lambda Legal by: American Airlines; 365gay.com; Mediapolis; Lexis Nexis; Outinamerica.com; The Advocate; Village Voice; Washington Blade; Outsports.com; Curve; David Barton Gym; King & Spalding, LLP; and Milbank, Tweed, Hadley & McCloy. The value of these additional services has been reflected as revenue and expenses amounting to \$697,272 for the year ended October 31, 2005.

The total amount of donated services for the year ended October 31, 2005 amounted to \$3,172,181.

NOTE 9 – ALLOCATION OF JOINT COSTS

Lambda Legal incurred joint costs of \$602,560 (other than donated services) for informational materials and activities that were included in fundraising appeals. Of these costs, \$232,665 was allocated to program expenses and \$369,895 was allocated to fundraising.

NOTE 10 – CONCENTRATIONS

Financial instruments that potentially subject Lambda Legal to a concentration of credit risk include cash accounts and certain money market funds with major financial institutions that exceeded the FDIC insurance limits (\$100,000). As of October 31, 2005, Lambda Legal's credit risk amounted to approximately \$363,000. Such amount includes outstanding checks.