

# **National Center for Lesbian Rights**

Financial Statements &  
Independent Auditor's Report  
for the Year Ended  
December 31, 2014

**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 December 31, 2014, 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 December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Comparative Information***

We have previously audited the December 31, 2013, financial statements of National Center for Lesbian Rights and our report dated April 16, 2014, expressed an unmodified opinion on those audited financial statements. With the exception of the accounting change discussed in Note 7, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation  
May 20, 2015

# National Center for Lesbian Rights

## Statement of Financial Position December 31, 2014 with Comparative Totals for December 31, 2013

	<u>2014</u>	<u>2013</u> (Note 2)
<b>ASSETS</b>		
Current Assets:		
Cash & equivalents	\$ 4,076	\$ 369,701
Marketable securities	244,350	261,684
Pledges & grants receivable, due within one year	1,117,855	762,657
Other receivables	171,606	96,755
Prepaid expenses & other current assets	81,727	58,260
Total current assets	1,619,614	1,549,057
Pledges & grants receivable, due in one to five years	176,000	56,500
Deposits, long-term	23,549	22,106
Property & equipment, net of accumulated depreciation of \$43,772 in 2014 and \$33,510 in 2013	30,947	14,731
Web site costs, net of accumulated amortization of \$13,845 in 2014 and \$2,769 in 2013	41,534	52,609
TOTAL ASSETS	\$ 1,891,644	\$ 1,695,003
 <b>LIABILITIES &amp; NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 173,557	\$ 99,456
Accrued payroll liabilities, current	327,888	263,816
Line of credit (Note 3)	300,000	100,000
Total current liabilities	801,445	463,272
Deferred rent (Note 2)	39,221	31,092
TOTAL LIABILITIES	840,666	494,364
Net Assets		
Unrestricted	(274,286)	212,474
Temporarily restricted (Note 4)	1,325,264	988,165
TOTAL NET ASSETS	1,050,978	1,200,639
TOTAL LIABILITIES & NET ASSETS	\$ 1,891,644	\$ 1,695,003

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 December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total (Note 2)</u>
Support & Revenue:				
Contributions & grants	\$ 2,193,747	\$ 2,430,753	\$ 4,624,500	\$ 3,858,058
Net assets released from restriction:				
Satisfaction of donor requirements	2,373,354	(2,373,354)	-	-
Special event, net of direct donor benefits of \$269,597 in 2014 and \$264,158 in 2013	66,056	279,700	345,756	178,794
Program revenue	92,841		92,841	18,164
Investment income (Note 5)	24,264		24,264	42,930
Other income	26,777		26,777	8,321
Total support & revenue before contributed services	4,777,039	337,099	5,114,138	4,106,267
Contributed services (Notes 2, 6)	3,759,279		3,759,279	1,404,122
Total support & revenue	8,536,318	337,099	8,873,417	5,510,389
Expenses:				
Program services	4,226,925		4,226,925	3,714,955
General & administrative	227,373		227,373	247,263
Fundraising	809,501		809,501	820,119
Total expenses before contributed services	5,263,799	-	5,263,799	4,782,337
Contributed services (Notes 2, 6)	3,759,279		3,759,279	1,404,122
Total expenses	9,023,078	-	9,023,078	6,186,459
CHANGE IN NET ASSETS	(486,760)	337,099	(149,661)	(676,070)
NET ASSETS, January 1				
As previously stated	104,476	988,165	1,092,641	1,812,460
Prior period adjustment (Note 7)	107,998		107,998	64,249
As restated	212,474	988,165	1,200,639	1,876,709
NET ASSETS, December 31	<u>\$ (274,286)</u>	<u>\$ 1,325,264</u>	<u>\$ 1,050,978</u>	<u>\$ 1,200,639</u>

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

## National Center for Lesbian Rights

### Statement of Functional Expenses for the Year Ended December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

	<b>Program Services</b>	<b>General &amp; Administrative</b>	<b>Fundraising</b>	<b>Total</b>	<b>2013 Total (Note 2)</b>
Salaries	\$ 2,216,766	\$ 131,950	\$ 290,290	\$ 2,639,006	\$ 2,411,519
Payroll taxes	158,548	9,437	20,762	188,747	177,683
Benefits	371,414	22,107	48,638	442,159	416,303
Contract services	368,593	20,328	15,090	404,011	351,800
Case expenses	29,168	-	-	29,168	16,340
Grants awarded	26,213	-	-	26,213	45,000
Advertising & public relations	24,452	65	196	24,713	59,727
Occupancy	248,845	10,962	24,117	283,924	261,647
Books, dues & publications	63,417	74	551	64,042	49,915
Telephone & Internet	62,594	2,680	5,549	70,823	71,840
Information technology	108,765	4,503	33,249	146,517	145,959
Postage	14,099	1,199	1,694	16,992	21,209
Printing	9,244	-	490	9,734	39,241
Direct mail expenses	8,382	-	154,216	162,598	-
Supplies & equipment	43,669	2,628	7,301	53,598	55,112
Staff development	12,446	40	4,207	16,693	17,759
Travel	337,297	1,994	23,081	362,372	326,795
Conferences & meetings	37,797	739	3,227	41,763	15,226
Gala event production	-	-	95,868	95,868	132,118
Other event production	19,270	25	8,162	27,457	36,761
Insurance	30,058	780	1,717	32,555	30,344
Taxes & licenses	2,070	4,504	212	6,786	12,594
Bank fees & merchant charges	9,264	7,323	50,064	66,651	44,795
Bad debt	-	-	12,092	12,092	25,372
Depreciation & amortization	17,923	1,067	2,347	21,337	7,558
Miscellaneous expenses	6,631	4,968	6,381	17,980	9,720
Total expenses before contributed services	4,226,925	227,373	809,501	5,263,799	4,782,337
Contributed services (Notes 2, 6)	3,759,279			3,759,279	1,404,122
<b>Total Expenses</b>	<b>\$ 7,986,204</b>	<b>\$ 227,373</b>	<b>\$ 809,501</b>	<b>\$ 9,023,078</b>	<b>\$ 6,186,459</b>

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

# National Center for Lesbian Rights

## Statement of Cash Flows for the Year Ended December 31, 2014 with Comparative Totals for the Year Ended December 31, 2013

	2014 Total	2013 Total (Note 2)
<b><i>Cash flows from operating activities:</i></b>		
Change in net assets	\$(149,661)	\$(676,070)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	21,337	7,558
Loss on disposal of fixed assets	-	2,020
Change in fair value of marketable securities	3,722	(13,926)
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	(474,698)	(100,086)
(Increase) decrease in other receivables	(74,851)	21,883
(Increase) decrease in prepaid expenses & deposits	(24,910)	42,681
Increase (decrease) in accounts payable & accrued expenses	138,173	74,597
Increase (decrease) in deferred rent	8,129	22,402
Increase (decrease) in other liabilities	-	(28,000)
<b>Cash provided (used) by operating activities:</b>	<b>(552,759)</b>	<b>(646,941)</b>
<b><i>Cash flows from investing activities:</i></b>		
Liquidation of marketable securities	13,612	462,142
Website development costs	-	(48,035)
Acquisition of property & equipment	(26,478)	(5,527)
<b>Cash provided (used) by investing activities:</b>	<b>(12,866)</b>	<b>408,580</b>
<b><i>Cash flows from financing activities:</i></b>		
Cash advances from line of credit	200,000	100,000
<b>Cash provided (used) by financing activities:</b>	<b>200,000</b>	<b>100,000</b>
<b>Cash provided (used) during year</b>	<b>(365,625)</b>	<b>(138,361)</b>
Cash and cash equivalents:		
<b>Beginning of year, January 1</b>	<b>369,701</b>	<b>508,062</b>
<b>End of year, December 31</b>	<b>\$ 4,076</b>	<b>\$ 369,701</b>

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

# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

### 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, and public education.

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

For over three 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.

**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.

(continued)



# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

(continued)

### 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.

### 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.

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# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

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### 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 accepted accounting principles, rent expense is recorded on 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-half of volunteer attorneys respond to these requests. Based on the responses, median composite valuation rates are developed for the various types of law firm respondents (using firm size and estimated contribution level to categorize each one) and applied to the total population of NCLR's volunteer attorneys in order to determine the total value of contributed services to record in the financial statements. Due to the fact that certain assumptions must be made when calculating and recording estimates, it is at least reasonably possible that the actual value of services received differs from the amount recorded in the financial statements.

### 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 time spent on the particular function.

### Advertising Costs

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

### Income Taxes

As a public charity, the Organization is exempt from income taxes except on activities unrelated to its mission. As management believes that all of the Organization's activities are directly

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# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

(continued)

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 and 2014 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, and 2014 are subject to examination by the California Franchise Tax Board, generally for four years after they were filed.

### Use of Estimates

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

### Comparative Data

The financial statement information for the year ended December 31, 2013, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation, please refer to the financial statements for that fiscal year.

### Reclassifications

Certain amounts in the December 31, 2013 financial statements have been reclassified to conform to the December 31, 2014 presentation.

### **3. Line of Credit**

As of December 31, 2014, the Organization had drawn down \$300,000 on a \$400,000 bank line of credit. Interest accrues on outstanding balances at a rate equal to the greater of 5% or the bank's Prime Rate plus 1.0%. The line expires in July 2015.

### **4. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2014, consist of awards designated by donors for the following:

General support for future periods	\$1,193,355
Sports program	95,000
Reproductive Justice Fellow	34,000
Miscellaneous projects	<u>2,909</u>
Total	\$1,325,264

# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

### 5. Investment Income

Interest & dividends	\$27,986
Unrealized gains/(losses)	(4,803)
Realized gains/(losses)	<u>1,081</u>
Total	\$24,264

### 6. Contributed Services

Pro bono contributed services reported	\$2,581,839
Estimate of additional contributed services	<u>1,177,440</u>
Total	\$3,759,279

### 7. Prior Period Adjustments – Change in Accounting Policy

Commencing with the year ended December 31, 2014, NCLR revised its sabbatical leave policy so that sabbatical leaves are no longer guaranteed, but provided at the discretion of the Executive Director. This change in accounting policy has resulted in the elimination of the sabbatical leave liability from the Organization's previously issued financial statements (\$64,249 as of 12/31/2012 and \$107,998 as of 12/31/2013), and a corresponding increase to unrestricted net assets.

### 8. Leases

NCLR rents its San Francisco office under a five-year operating lease effective through May 2017. The lease agreement calls for monthly rent at \$17,136 during 2014, followed by scheduled annual increases of approximately 3% 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 \$5,220 per month during 2014 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 four fiscal years are as follows:

2015	\$285,263
2016	294,903
2017	167,345
2018	<u>22,447</u>
Total future minimum lease payments	\$769,958

# National Center for Lesbian Rights

## Notes to Financial Statements December 31, 2014

### 9. Retirement Plan

NCLR maintains a defined contribution 403(b) retirement plan. Contributions to the plan are made at the board's discretion and are allocated to eligible individual employee accounts pro rata based on respective salaries. For the year ended December 31, 2014, the board made employer contributions totaling \$51,326.

### 10. Contingencies

#### Investment Risk

NCLR has invested \$244,350 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 May 20, 2015, the date the financial statements were available to be issued.