

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2009

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
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December 31, 2009

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Drolet + Associates PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Servicemembers Legal Defense Network, Inc.
Washington, DC

Report of Independent Auditors

We have audited the accompanying statement of financial position of Servicemembers Legal Defense Network, Inc. (SLDN) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of SLDN'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 SLDN's December 31, 2008 financial statements, and in our report dated March 9, 2009, 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 Servicemembers Legal Defense Network, Inc. as of December 31, 2009, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
February 19, 2010

Drolet + Associates, PLLC

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2009
(With Summarized Financial Information for December 31, 2008)

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 732,445	\$ 156,447
Investments	-0-	243,320
Bequests receivable	222,120	218,047
Foundation grants receivable	20,000	-0-
Contributions & pledges receivable	30,260	53,555
Prepaid expenses and other current assets	51,040	62,509
TOTAL CURRENT ASSETS	1,055,865	733,878
FIXED ASSETS		
Furniture and equipment	224,608	224,608
Less accumulated depreciation	(198,155)	(183,040)
TOTAL FIXED ASSETS	26,453	41,568
BEQUESTS RECEIVABLE , net of current portion	635,912	835,597
FOUNDATION GRANTS RECEIVABLE , net of current portion	10,000	-0-
DEPOSITS	3,675	3,675
TOTAL ASSETS	\$ 1,731,905	\$ 1,614,718
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 23,401	\$ 14,484
Accrued expenses	62,793	63,661
Line of credit	150,000	150,000
Notes payable	15,667	12,942
Deferred revenue	66,625	500
TOTAL CURRENT LIABILITIES	318,486	241,587
NOTES PAYABLE , net of current portion	11,431	27,098
TOTAL LIABILITIES	329,917	268,685
NET ASSETS		
Unrestricted	513,956	292,389
Temporarily restricted, for subsequent years' activities	888,032	1,053,644
TOTAL NET ASSETS	1,401,988	1,346,033
TOTAL LIABILITIES AND NET ASSETS	\$ 1,731,905	\$ 1,614,718

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

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	2009 Total	2008 Total
REVENUE				
Contributions	\$ 1,545,580		\$ 1,545,580	\$ 1,458,323
Charitable bequest	-0-	\$ 30,080	30,080	743,355
Grants	809,103	30,000	839,103	561,488
In-kind contributions	803,813		803,813	472,382
Other income	3,316		3,316	7,773
Interest income	3,920		3,920	2,961
Net assets released from restrictions, expiration of time restrictions	225,692	(225,692)	-0-	-0-
TOTAL REVENUE	3,391,424	(165,612)	3,225,812	3,246,282
EXPENSES				
Program services	2,389,826		2,389,826	2,081,898
Management and general	226,335		226,335	225,324
Fundraising	553,696		553,696	493,790
TOTAL EXPENSES	3,169,857		3,169,857	2,801,012
CHANGE IN NET ASSETS	221,567	(165,612)	55,955	445,270
NET ASSETS, BEGINNING OF YEAR	292,389	1,053,644	1,346,033	900,763
NET ASSETS, END OF YEAR	\$ 513,956	\$ 888,032	\$ 1,401,988	\$ 1,346,033

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

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

	Program	Management & General	Fundraising	2009 Total	2008 Total
Advertising	\$ 27,112	\$ 252	\$ 3,281	\$ 30,645	\$ 17,256
Equipment rental and expense	7,005	3,993	3,638	14,636	17,254
Catering	103,539	24,696	22,584	150,819	174,079
Conference, meetings & events	1,998	13	790	2,801	2,915
Depreciation			15,115	15,115	10,827
Dues and subscriptions	8,321	511	1,958	10,790	6,659
Entertainment and other expenses	2,516	239	5,371	8,126	8,950
Grant expense	1,610	195	195	2,000	-
Insurance	12,498	323	2,069	14,890	20,486
Licenses and permits	164	79	4,130	4,373	4,091
Interest expense	3,396	1,839	1,840	7,075	4,790
Miscellaneous	7,151	3,117	21,357	31,625	27,501
Office supplies	17,950	6,082	2,299	26,331	31,895
Payroll and benefits expense	880,868	93,776	278,372	1,253,016	1,237,464
Postage and delivery	16,428	1,488	14,596	32,512	33,694
Printing and reproduction	26,708	523	24,842	52,073	65,557
Professional fees	1,112,050	15,008	106,894	1,233,952	817,892
Rent	60,471	4,952	31,720	97,143	92,987
Service contracts	23,397	32,535	1,027	56,959	56,703
Telephone, internet and fax	8,166	4,460	3,656	16,282	42,825
Travel and meals	68,478	32,254	7,962	108,694	127,187
TOTAL	\$ 2,389,826	\$ 226,335	\$ 553,696	\$ 3,169,857	\$ 2,801,012

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

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2009
(With Summarized Financial Information for the Year Ended December 31, 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ 55,955	\$ 445,270
Adjustments to reconcile change in net assets to net cash provided by (used) in operating activities:		
Depreciation	15,115	10,827
Decrease (increase) in bequests receivable	195,612	(525,183)
(Increase) decrease in foundation grants receivables	(30,000)	75,000
Decrease in contributions & pledges receivable	23,295	59,129
Decrease (increase) in prepaid expenses	11,469	(21,845)
Increase (decrease) in accounts payable	8,917	(9,454)
Increase (decrease) in deferred revenue	66,125	(18,720)
Decrease in accrued expenses	(868)	(47,343)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	345,620	(32,319)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	-0-	(243,320)
Proceeds from the sales of investments	360,042	249,610
Donated investments	(116,722)	(239,660)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	243,320	(233,370)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	-0-	250,000
Repayments on line of credit	-0-	(100,000)
Repayment of note payable	(12,942)	(12,355)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(12,942)	137,645
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	575,998	(128,044)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	156,447	284,491
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 732,445	\$ 156,447
Supplemental disclosure of non-cash investing and financing activities:		
Obligation incurred for the purchase of software	\$ -0-	\$ 45,346
Supplemental disclosure:		
Cash paid during the year for interest	\$ 7,075	\$ 4,790

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

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Servicemembers Legal Defense Network, Inc. (SLDN) is a not-for-profit corporation incorporated in the State of Delaware on August 17, 1993. SLDN is a national, nonprofit legal services, watchdog and policy organization dedicated to ending discrimination against and harassment of military personnel affected by “Don’t Ask, Don’t Tell, Don’t Pursue, Don’t Harass” and related forms of intolerance.

SLDN is supported primarily by contributions, bequests, grants and special events.

Income Taxes SLDN is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and did not conduct unrelated business activities. In addition, SLDN has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Code.

Fixed Assets SLDN capitalizes all fixed assets acquisitions in excess of \$5,000. Fixed assets are recorded at cost, if purchased, or fair market value at date of donation, if contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

Cash and Cash Equivalents For the purposes of the statement of cash flows, SLDN considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Contributions SLDN 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. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or the 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.

Donated Services Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by SLDN. Volunteers also provided fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

Investments Investments are recorded at fair market value.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Functional Expense

Allocation The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Accounting for
Uncertain Tax
Positions**

On December 31, 2009, SLDN adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The implementation of FIN 48 had no impact on SLDN’s statement of financial position or statement of activities. SLDN does not believe its financial statements include, or reflect, any uncertain tax positions.

Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain 2008 amounts have been reclassified for comparative purposes.

**Prior Year
Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such 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 information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008 from which the summarized information was derived.

NOTE B – LEASING ARRANGEMENTS

In August 1997, SLDN entered into a lease for office space at 1612 K Street NW, Washington, DC. The annual minimum rental is subject to annual increases payable in monthly installments on the first day of each month. The original lease has been amended to include additional space and extend the lease term to October 31, 2011. In the normal course of business, the lease will be renewed or replaced by another lease.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE B – LEASING ARRANGEMENTS (Continued)

The following is a schedule of future minimum lease payments as of December 31, 2008:

<i>Year Ending December 31,</i>	<i>Amount</i>
2010	\$ 100,890
2011	87,200
Total future minimum lease payments	\$ 188,090

For the years ended December 31, 2009 and 2008, rent expense was approximately \$97,000 and \$93,000, respectively.

NOTE C – RETIREMENT PLAN

SLDN sponsors a defined contribution plan (the Plan) that operates under section 403(b) of the Internal Revenue Code. The purpose of the Plan is to provide retirement benefits for participating employees. SLDN contributes up to 2% of each participant's annual salary to the Plan on a one-to-one matching basis. For the years ended December 31, 2009 and 2008, SLDN made contributions of approximately \$17,000 and \$18,000, respectively.

NOTE D – BEQUESTS

In 2002, SLDN was the recipient of a bequest which will be paid in ten annual installments. The assets are held in a trust established by the decedent's estate. The first annual payment of \$85,785 was received in July 2002. Generally accepted accounting principles require that management estimate the potential future receipts from this bequest and record its entire value in the financial statements in the year the bequest is made. For the year ended December 31, 2009, the estimated future receipt of the bequest was increased by approximately \$1,500 to reflect the change in value of the trust assets. For the year ended December 31, 2008, the estimated future receipt of the bequest decreased approximately \$55,000. Cash payments will be received once each year for the next two years. The amounts will vary depending on investment results over those intervening years. The potential amount to be received over the next two years has been estimated, for financial statement purposes, at approximately \$237,000.

In 2008, SLDN was also the recipient of another bequest which will be paid in thirty-two quarterly installments until the fund is exhausted. The assets are held in a donor designated fund established by the decedent's estate. As of December 31, 2009, the value is estimated to be \$621,000.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE D – BEQUESTS (Continued)

Bequests receivable as of December 31, 2009 and 2008 are as follows:

Description	2009	2008
Bequest receivable in less than one year	\$ 222,120	\$ 218,047
Bequests receivable in one to five years	635,912	835,597
Total bequests receivable	\$ 858,032	\$ 1,053,644

NOTE E – CONCENTRATIONS

SLDN maintains cash balances at several financial institutions in the Washington, DC metropolitan area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC). At times during the year, SLDN's cash balances exceeded the FDIC insurance amount. Management believes the risk in these situations to be minimal.

As of December 31, 2009 approximately \$30,000 or 100% of foundation grants receivable was from one donor.

NOTE F – NOTE PAYABLE

During the year ended December 31, 2008, SLDN entered into a financing arrangement to purchase software for approximately \$46,000 at an interest rate of 10.9%. Payments are due in equal monthly installments of approximately \$1,500.

The future scheduled maturities of the note payable are as follows:

Year Ending December 31,	Amount
2010	\$ 15,667
2011	11,431
Total payments	\$ 27,098

NOTE G – LINE OF CREDIT

On January 17, 2006, SLDN entered into a revolving line of credit agreement with Bank of America for \$150,000. This line of credit bears a variable interest rate equal to Bank of America's Prime Rate plus .5%. Prior to year end, the line of credit was renewed through July 1, 2010. It is secured by substantially all assets of SLDN. For the years ended December 31, 2009 and 2008, the unpaid balance is \$150,000.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE H – DONATED SERVICES

For the years ended December 31, 2009 and 2008, in-kind contributions consisted of the following program expenses.

Description	2009	2008
Legal services	\$ 793,746	\$ 466,950
Advertising	5,087	5,432
Other materials and services	4,980	-0-
Total In-Kind	\$ 803,813	\$ 472,382

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2009 and 2008, temporarily restricted net assets consisted of the following:

Restriction	2009	2008
Time restricted bequest receivable	\$ 858,032	\$ 1,053,644
Time restricted foundation grants	30,000	-0-
Total temporarily restricted net assets	\$ 888,032	\$ 1,053,644

As of December 31, 2009 and 2008, releases from temporarily restricted net assets consisted of the following:

Restriction	2009	2008
Time restricted bequest receivable	\$ 225,692	\$ 118,171
Time restricted foundation grants	-0-	75,000
Total temporarily restricted net assets	\$ 225,692	\$ 193,171

NOTE J – FAIR VALUE MEASUREMENTS

Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*", (SFAS 157) defines fair value, establishes a frame work for measuring fair value, and expands disclosures about fair value measurements. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by SFAS 157, are

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE J – FAIR VALUE MEASUREMENTS (Continued)

used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities SLDN has the ability to access (examples include equity securities and U.S. Government Securities).

Level 2 - inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly (examples include corporate or municipal bonds which trade infrequently).

Level 3 - are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (examples include certain private equity securities).

Fair values of assets measured on a recurring basis at December 31, 2009 and 2008 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2009				
Money market funds	\$ 686,091	\$ 686,091		\$ -0-
Bequest receivable	858,032		\$ 858,032	
Foundation receivable	30,000		30,000	
Total	\$ 1,574,123	\$ 686,091	\$ 888,032	\$ -0-
December 31, 2008				
Money market funds	\$ 148,175	\$ 148,175		\$ -0-
Bequest receivable	1,053,644		\$ 1,053,644	
Total	\$ 1,201,819	\$ 148,175	\$ 1,053,644	\$ -0-

NOTE K – SUBSEQUENT EVENTS

Subsequent to year end, on January 26, 2010, SLDN formed Servicemembers Legal Defense Network Freedom to Serve (SLDNFS), a nonprofit organization exempt under Section 501(C) (4) of the Internal Revenue Code. The purpose of SLDNFS is to promote the social welfare of all servicemembers affected by any type of discrimination based on their real or perceived sexual orientation, gender identity, or gender expression. SLDN will share office space and other related expenses with the newly formed SLDNFS.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009

NOTE K – SUBSEQUENT EVENTS (Continued)

We have evaluated whether events or transactions have occurred after December 31, 2009 that would require recognition or disclosure in these financial statements through February 19, 2010, which is the date the financial statements were available to be issued.