

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2011

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
AUDITED FINANCIAL STATEMENTS
December 31, 2011

Report of Independent Auditors	1
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10



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, 2011, 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, 2010 financial statements, and in our report dated February 15, 2011, 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, 2011, 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.

Drolet + Associates, PLLC

Washington, DC
February 17, 2012

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011
(With Summarized Financial Information for December 31, 2010)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 289,257	\$ 525,067
Investments	-0-	3,605
Bequests receivable	103,448	229,883
Foundation grants receivable	-0-	85,000
Contributions and pledges receivable	60,797	77,355
Due from SLDN Freedom to Serve	-0-	5,560
Prepaid expenses and other current assets	41,822	48,112
TOTAL CURRENT ASSETS	495,324	974,582
FIXED ASSETS		
Furniture and equipment	224,608	224,608
Less accumulated depreciation	(224,608)	(213,270)
TOTAL FIXED ASSETS	-0-	11,338
BEQUESTS RECEIVABLE , net of current portion	310,344	413,792
CONTRIBUTIONS AND PLEDGES RECEIVABLE , net of current portion	30,000	-0-
DEPOSITS	3,675	3,675
TOTAL ASSETS	\$ 839,343	\$ 1,403,387
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,343	\$ 11,072
Accrued expenses	52,090	74,120
Notes payable	-0-	11,431
Deferred revenue	66,995	76,800
TOTAL CURRENT LIABILITIES	125,428	173,423
NET ASSETS		
Unrestricted	260,123	501,289
Temporarily restricted, for subsequent years' activities	453,792	728,675
TOTAL NET ASSETS	713,915	1,229,964
TOTAL LIABILITIES AND NET ASSETS	\$ 839,343	\$ 1,403,387

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, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
REVENUE				
Contributions	\$ 1,201,493	\$ 40,000	\$ 1,241,493	\$ 1,299,862
Charitable bequest	12,565		12,565	15,526
Grants	381,711		381,711	929,820
In-kind contributions	1,014,535		1,014,535	1,399,845
Other income	1,461		1,461	2,481
Interest income	49		49	45
Net assets released from restrictions, expiration of time restrictions	314,883	(314,883)	-0-	-0-
TOTAL REVENUE	2,926,697	(274,883)	2,651,814	3,647,579
EXPENSES				
Program services	2,567,861		2,567,861	3,152,238
Management and general	210,708		210,708	232,950
Fundraising	389,294		389,294	434,415
TOTAL EXPENSES	3,167,863		3,167,863	3,819,603
CHANGE IN NET ASSETS	(241,166)	(274,883)	(516,049)	(172,024)
NET ASSETS, BEGINNING OF YEAR	501,289	728,675	1,229,964	1,401,988
NET ASSETS, END OF YEAR	\$ 260,123	\$ 453,792	\$ 713,915	\$ 1,229,964

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, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

	Program	Management & General	Fundraising	2011 Total	2010 Total
Advertising	\$ 7,418	\$ 207	\$ 1,469	\$ 9,094	\$ 37,664
Equipment rental and expense	9,943	2,467	3,304	15,714	14,583
Catering	210,348	39,723	47,744	297,815	185,049
Conference, meetings & events	1,401	44	74	1,519	2,495
Depreciation			11,338	11,338	15,115
Dues and subscriptions	6,911	100	1,365	8,376	12,659
Entertainment and other expenses	2,932	252	279	3,463	8,119
Grant expense	2,160	1,170	1,170	4,500	3,000
Insurance	12,864	449	2,214	15,527	14,071
Licenses and permits	167	91	11,064	11,322	5,536
Interest expense				-0-	2,746
Miscellaneous	2,623	915	22,366	25,904	32,605
Office supplies	20,397	2,147	2,637	25,181	26,207
Payroll and benefits expense	863,500	85,196	178,935	1,127,631	1,329,234
Postage and delivery	10,845	394	12,214	23,453	14,135
Printing and reproduction	11,999	938	12,925	25,862	30,565
Professional fees	1,246,842	22,474	42,391	1,311,707	1,802,990
Rent	75,276	5,381	26,572	107,229	101,488
Service contracts	20,065	31,649		51,714	49,683
Telephone, internet and fax	8,277	4,034	3,940	16,251	23,817
Travel and meals	53,893	13,077	7,293	74,263	107,842
TOTAL	\$ 2,567,861	\$ 210,708	\$ 389,294	\$ 3,167,863	\$ 3,819,603

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, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ (516,049)	\$ (172,024)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,338	15,115
Decrease in bequests receivable	229,883	214,357
Decrease (increase) in foundation grants receivables	85,000	(55,000)
Increase in contributions & pledges receivable	(13,442)	(47,095)
Decrease (increase) in due from SLDN Freedom to Serve	5,560	(5,560)
Decrease in prepaid expenses	6,290	2,928
Decrease in accounts payable	(4,729)	(12,329)
(Decrease) increase in deferred revenue	(9,805)	10,175
(Decrease) increase in accrued expenses	(22,030)	11,327
NET CASH USED IN OPERATING ACTIVITIES	(227,984)	(38,106)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sales of investments	71,776	51,405
Donated investments	(68,171)	(55,010)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,605	(3,605)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit	-0-	(150,000)
Repayment of note payable	(11,431)	(15,667)
NET CASH USED IN FINANCING ACTIVITIES	(11,431)	(165,667)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,810)	(207,378)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	525,067	732,445
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 289,257	\$ 525,067
Supplemental disclosure:		
Cash paid during the year for interest	\$ -0-	\$ 2,746

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

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

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 bringing about full lesbian, gay, bisexual and transgender (LGBT) equality within the military and providing free and direct legal assistance to service members affected by discrimination or harassment based on sexual orientation or gender identity.

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.

**Bequests
Receivable** Bequests receivable consists of amounts due from bequests that were not received by SLDN at year end. The management of SLDN reviews the collectability of the accounts on a regular basis, and no reserve for doubtful accounts has been established.

**Contributions
and Pledges
Receivable** Contributions and pledges receivable consist primarily of amounts due from donors which were not received by SLDN at year end. The management of SLDN reviews the collectability of the accounts receivable on a monthly basis. No reserve for doubtful accounts has been established because management expects to collect all accounts receivable in full.

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.

Investments Investments are recorded at fair market value.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

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

**Donated
Services**

Donated services are recognized as contributions in accordance with Financial Accounting Standards Board (FASB), *Accounting Standards Codification 958, Accounting for Contributions* (ASC 958), 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.

**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**

The provision of Financial Standards Board (FASB) Accounting Standards Codification 740, *Income Taxes* (ASC 740) 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. SLDN believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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 2010 amounts have been reclassified for comparative purposes.

**Prior Year
Information**

The financial statements include certain prior year summarized comparative totals as of and for the year ended December 31, 2010. 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 financial statements for the year ended December 31, 2010, from which the summarized information was derived.

NOTE B – 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 year ended December 31, 2011, SLDN made contributions of approximately \$19,000.

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE C – 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, 2013. In the normal course of business, the lease will be renewed or replaced by another lease.

As of December 31, 2011, future minimum lease payments under the operating lease entered into by SLDN that have remaining lease terms in excess of one year are as follows:

<i>Year Ending December 31,</i>	Amount
2012	\$ 105,164
2013	89,819
Total future minimum lease payments	\$ 194,983

For the year ended December 31, 2011, rent expense was approximately \$107,000.

NOTE D – BEQUESTS RECIVABLE

In 2008, SLDN was the recipient of a 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, 2011, the value is estimated to be approximately \$414,000.

Bequests receivable as of December 31, 2011 are as follows:

Description	Amount
Bequest receivable in less than one year	\$ 103,448
Bequests receivable in one to five years	310,344
Total bequests receivable	\$ 413,792

NOTE E – CONTRIBUTIONS AND PLEDGES RECIVABLE

Contributions and pledges receivable consist of unconditional promises to give, which includes amounts from donors and are recorded at net realizable value.

Description	Amount
Contributions and pledges receivable in less than one year	\$ 60,797
Contributions and pledges receivable in one to five years	30,000
Total contributions and pledges receivable	\$ 90,797

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE F – 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, 2011, one bequest comprised 100% of bequests receivable. As of December 31, 2011, two donors comprised 44% of contributions and pledges receivable. For the year ended December 31, 2011, 16% of contribution revenue was from one donor.

NOTE G – NOTE PAYABLE

During the year ended December 31, 2008, SLDN entered into a financing arrangement (the Note) 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. As of December 31, 2011 the Note was paid in full.

NOTE H – UNUSED LINE OF CREDIT

At December 31, 2011, SLDN had available a revolving line of credit of \$150,000 with a bank to be drawn upon as needed with an interest equal to the bank's Prime Rate plus 4.75%. The line of credit is secured by substantially all of SLDN's assets. The line of credit matures on June 29, 2012. There was no balance due on the line of credit at December 31, 2011 and SLDN did not draw upon the line of credit during the year ended December 31, 2011.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2011, temporarily restricted net assets consisted of the following:

Restriction	Amount
Time restricted bequest receivable	\$ 413,792
Time restricted contributions	40,000
Total temporarily restricted net assets	\$ 453,792

For the years ended December 31, 2011, releases from temporarily restricted net assets consisted of the following:

Restriction	Amount
Time restricted bequest receivable	\$ 229,883
Time restricted foundation grants	85,000
Total releases	\$ 314,883

SERVICEMEMBERS LEGAL DEFENSE NETWORK, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011

NOTE J – DONATED SERVICES

For the year ended December 31, 2011, in-kind contributions consisted of the following program expenses:

Description	Amount
Legal services	\$ 1,007,225
Information technology services	7,310
Total In-Kind	\$ 1,014,535

NOTE K – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 17, 2012, which is the date the financial statements were available to be issued.