

**LEGAL AID SOCIETY OF  
THE DISTRICT OF COLUMBIA  
DECEMBER 31, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Executive Committee  
Legal Aid Society of the District of Columbia  
Washington, D.C.

We have audited the accompanying financial statements of the Legal Aid Society of the District of Columbia (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 in the first paragraph present fairly, in all material respects, the financial position of Legal Aid Society of the District of Columbia as of December 31, 2019 and 2018, and 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.

## ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Activities (Without Donated Services) for the years ended December 31, 2019 and 2018 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Sapirio and Rhodes, LLP*

May 1, 2020

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31,	
	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 1, 5 and 13)	\$ 1,758,665	\$ 1,819,473
Investments (Notes 1, 4 and 5)	3,505,381	2,956,355
Grants and contributions receivable (Note 1)	2,741,595	2,218,650
Interest receivable and prepaid expenses	148,228	141,992
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 8,153,869</b>	<b>\$ 7,136,470</b>
<b>PROPERTY AND EQUIPMENT</b> (Notes 1 and 6)	407,424	223,522
<b>OTHER ASSETS:</b>		
Deposits	42,348	42,348
<b>TOTAL ASSETS</b>	<b>\$ 8,603,641</b>	<b>\$ 7,402,340</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 187,291	\$ 165,354
Deferred revenue (Notes 1 and 7)	81,000	85,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 268,291</b>	<b>\$ 250,354</b>
<b>NON-CURRENT LIABILITIES:</b>		
Deferred lease obligation (Note 8)	1,053,918	648,312
<b>TOTAL LIABILITIES</b>	<b>\$ 1,322,209</b>	<b>\$ 898,666</b>
<b>COMMITMENTS</b> (Note 8)		
<b>NET ASSETS</b> (Notes 1, 11 and 12):		
Without donor restrictions	\$ 4,261,047	\$ 3,555,584
With donor restrictions	3,020,385	2,948,090
<b>TOTAL NET ASSETS</b>	<b>\$ 7,281,432</b>	<b>\$ 6,503,674</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,603,641</b>	<b>\$ 7,402,340</b>

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**STATEMENTS OF ACTIVITIES**

FOR THE YEARS ENDED DECEMBER 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<b>REVENUE, SUPPORT AND GAINS (Notes 1, 7 and 10):</b>					
Donated services	\$ 28,881,923	\$ -	\$ 28,881,923	\$ 28,195,939	\$ -	\$ 28,195,939
Grants and contributions	3,544,726	3,040,973	6,585,699	2,999,218	2,942,255	5,854,549
Special events	1,293,772	-	1,293,772	1,174,884	-	1,174,884
Less: direct benefits to donors	(172,364)	-	(172,364)	(144,577)	-	(144,577)
Investment income, net	195,504	88,306	283,810	75,597	(39,380)	36,217
Legal fees	265,769	-	265,769	86,924	-	86,924
Event ticket revenue	115,255	-	115,255	-	-	-
In-kind contributions	1,555	-	1,555	6,160	-	6,160
Miscellaneous income	-	-	-	3,742	-	3,742
Net assets released from restrictions	3,056,984	(3,056,984)	-	2,765,227	(2,765,227)	-
<b>TOTAL REVENUE, SUPPORT AND GAINS</b>	<b>\$ 37,183,124</b>	<b>\$ 72,295</b>	<b>\$ 37,255,419</b>	<b>\$ 35,163,114</b>	<b>\$ 137,648</b>	<b>\$ 35,300,762</b>
<b>EXPENSES:</b>						
Program service	\$ 35,147,458	\$ -	\$ 35,147,458	\$ 33,552,982	\$ -	\$ 33,552,982
Fundraising	677,158	-	677,158	616,706	-	616,706
Management and general	653,045	-	653,045	596,377	-	596,377
<b>TOTAL EXPENSES</b>	<b>\$ 36,477,661</b>	<b>\$ -</b>	<b>\$ 36,477,661</b>	<b>\$ 34,766,065</b>	<b>\$ -</b>	<b>\$ 34,766,065</b>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 705,463</b>	<b>\$ 72,295</b>	<b>\$ 777,758</b>	<b>\$ 397,049</b>	<b>\$ 137,648</b>	<b>\$ 534,697</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,555,584</b>	<b>2,948,090</b>	<b>6,503,674</b>	<b>3,158,535</b>	<b>2,810,442</b>	<b>5,968,977</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 4,261,047</b>	<b>\$ 3,020,385</b>	<b>\$ 7,281,432</b>	<b>\$ 3,555,584</b>	<b>\$ 2,948,090</b>	<b>\$ 6,503,674</b>

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

FOR THE YEARS ENDED DECEMBER 31,

	2019					2018				
	Program Service	Supporting Services			Total	Program Service	Supporting Services			Total
		Fundraising	Management and General	Direct Benefits to Donors			Fundraising	Management and General	Direct Benefits to Donors	
Donated services (Note 10)	\$ 28,881,923	\$ -	\$ -	\$ -	\$ 28,881,923	\$ 28,195,939	\$ -	\$ -	\$ -	\$ 28,195,939
Salaries	4,396,947	379,961	416,668	-	5,193,576	3,804,315	334,917	376,928	-	4,516,160
Occupancy (Note 8)	680,717	58,564	64,223	-	803,504	530,136	46,407	52,228	-	628,771
Employee benefits	533,266	46,082	50,534	-	629,882	441,884	38,902	43,781	-	524,567
Payroll taxes	348,966	30,156	33,069	-	412,191	285,160	25,104	28,253	-	338,517
Special events	-	23,127	-	172,364	195,491	-	12,586	-	144,577	157,163
Technology and internet	49,017	29,534	4,645	-	83,196	68,001	5,987	6,737	-	80,725
Office supplies and expenses	68,594	6,405	4,326	-	79,325	60,860	5,358	6,030	-	72,248
Depreciation and amortization (Note 6)	51,887	4,484	4,917	-	61,288	39,203	3,451	3,884	-	46,538
Bank and credit card fees	-	53,957	5,411	-	59,368	-	40,494	2,770	-	43,264
Telephone	39,183	3,008	3,299	-	45,490	43,439	3,309	3,724	-	50,472
Professional services	-	-	45,269	-	45,269	850	70	39,502	-	40,422
Printing and publications	3,405	38,763	286	-	42,454	4,809	55,546	437	-	60,792
Insurance	26,839	-	3,288	-	30,127	24,450	-	2,915	-	27,365
Dues and subscriptions	24,118	-	1,832	-	25,950	20,720	-	4,793	-	25,513
Taxes - other	16,973	1,467	1,608	-	20,048	-	-	12,200	-	12,200
Postage and shipping	239	1,650	11,163	-	13,052	109	10,463	9,390	-	19,962
Training	12,735	-	-	-	12,735	17,872	1,112	2,436	-	21,420
Other program expenses	12,649	-	-	-	12,649	15,235	-	-	-	15,235
Miscellaneous expenses	-	-	2,507	-	2,507	-	-	-	-	-
Bad debt	-	-	-	-	-	-	33,000	369	-	33,369
<b>TOTAL EXPENSES</b>	<b>\$ 35,147,458</b>	<b>\$ 677,158</b>	<b>\$ 653,045</b>	<b>\$ 172,364</b>	<b>\$ 36,650,025</b>	<b>\$ 33,552,982</b>	<b>\$ 616,706</b>	<b>\$ 596,377</b>	<b>\$ 144,577</b>	<b>\$ 34,910,642</b>
Less, Direct Benefits to Donors	-	-	-	(172,364)	(172,364)	-	-	-	(144,577)	(144,577)
<b>TOTAL EXPENSES PER</b>										
<b>STATEMENTS OF ACTIVITIES</b>	<b>\$ 35,147,458</b>	<b>\$ 677,158</b>	<b>\$ 653,045</b>	<b>\$ -</b>	<b>\$ 36,477,661</b>	<b>\$ 33,552,982</b>	<b>\$ 616,706</b>	<b>\$ 596,377</b>	<b>\$ -</b>	<b>\$ 34,766,065</b>

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 777,758	\$ 534,697
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	61,288	46,538
Net realized and unrealized losses (gains) on investments	(146,828)	85,238
Donated securities recorded as revenue	(219,599)	(80,799)
Donated furniture and equipment recorded as revenue	(1,555)	(6,160)
Bad debts	-	33,369
Change in operating assets and liabilities:		
Decrease (increase) in grants and contributions receivable	(522,945)	401,131
Decrease in other receivables	-	28,150
Increase in interest receivable and prepaid expenses	(6,236)	(51,148)
Increase in accounts payable and accrued expenses	21,937	27,049
Increase (decrease) in deferred revenue	(4,000)	61,851
Increase in deferred lease obligation	247,983	315,427
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 207,803</u>	<u>\$ 1,395,343</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	\$ 478,341	\$ 1,034,548
Purchases of investments	(660,942)	(1,601,558)
Payments for security deposits	-	(6,048)
Payments for purchases of property and equipment	(86,010)	(26,264)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>\$ (268,611)</u>	<u>\$ (599,322)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ (60,808)	\$ 796,021
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,819,473</u>	<u>1,023,452</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,758,665</u>	<u>\$ 1,819,473</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash investing activity:		
Asset acquisition through tenant improvement allowance	<u>\$ 157,623</u>	<u>\$ -</u>

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 1. **Organization and Summary of Significant Accounting Policies**

**Organization** - The Legal Aid Society of the District of Columbia (the “Organization”) was founded in 1932 as a non-profit public interest law firm. The Organization provides representation and other assistance to low-income individuals who are either District of Columbia (the “District”) residents or have a civil legal problem in the District’s courts or before a District administrative tribunal. The Organization’s staff and volunteers assist clients with civil legal problems on a range of matters including domestic violence, custody, child support, eviction, immigration, public housing, preservation of affordable housing, health care, public benefits and consumer law.

**Program Service** - The Organization works to ensure that families, individuals and communities living in poverty have equal and meaningful access to justice by providing advice, brief assistance, representation and referrals. In addition to direct client services, the Organization advocates for systemic change on matters that grow directly from individual cases. The core priorities of the Organization include keeping people housed, securing access to health care and public benefits, protecting limited assets and income, protecting immigrants’ rights, securing safety from domestic violence and finding family stability. The Organization also has a nationally-recognized appellate practice, the Barbara McDowell Appellate Advocacy Project.

**Basis of Accounting** - The financial statements of the Organization have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred.

**Basis of Presentation** - The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions:* Net assets without donor restrictions represent funds which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its program or supporting services.
- *With donor restrictions:* Net assets with donor restrictions are comprised of funds which are restricted by donors for a specific purpose, for a specific time period, or in perpetuity.

**Income Tax Status** - The Organization is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). Income from certain activities not directly related to the Organization’s tax-exempt purpose are subject to taxation as unrelated business income.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, the Organization considers highly liquid debt instruments purchased with original maturities of less than three months to be cash equivalents. Money market funds held with investment brokers are considered cash equivalents.

**Grants and Contributions Receivable** - Grants and contributions receivable represent amounts pledged but not yet collected at year-end. These receivables, which are generally uncollateralized, are stated at the amount management expects to collect from balances outstanding at year-end. Based on its assessment of the payment history and current relationships with contributors and grantors having outstanding balances management has concluded that realization losses, if any, on balances outstanding at year-end would be immaterial. Therefore, there was no allowance for doubtful accounts as of December 31, 2019 and 2018. Management expects the amounts to be received in full within the coming year.

**Investments** - Investments are measured at fair value at the statement of financial position date. Investments include exchange-traded funds, common stocks and fixed income securities held with investment brokers. Money market funds held with investment brokers are reported as cash equivalents. Investment income is presented net of investment fees and is comprised of interest, dividends, fees and realized and unrealized gains and losses on investments and is reported in the statements of activities.

**Property and Equipment** - Property and equipment are stated at cost, if purchased, or fair value on the date of donation, if contributed. Leasehold improvements are amortized on the straight-line basis over the lease term. Depreciation is computed using the straight-line method based on useful lives of three to five years. All purchases of equipment over \$1,000 and with expected lives of greater than one year are capitalized. Maintenance and repairs are expensed in the year incurred.

**Revenue Recognition** - In accordance with Financial Accounting Standards Board's Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Organization recognizes revenues from contracts with customers when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred, in the amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods and services. Revenue from contracts with customers is reported as event ticket revenue in the statements of activities. The performance obligations are satisfied at a point in time when the event occurs.

Amounts received in advance for future events is recorded as deferred revenue in the statements of financial position.

Revenue from grants and contributions are recognized at the earlier of when the donor makes a promise to give to the Organization that is, in substance, unconditional or when they are received. Revenue from grants that are considered conditional contributions are recorded in the statements of activities as grants and contributions when the conditions have been met. Contributions are considered to be without donor restrictions unless specifically restricted by the donor for time or purpose.

The Organization records contributions in the donor restricted net asset class if they are received with donor stipulations as to their use and/or time. When a donor restriction expires, net assets with donor restrictions are released and reclassified to net assets without donor restrictions in the statements of activities.

Revenue from reimbursable grants that are considered to be conditional are recorded in the statements of activities under reimbursable grants and are recognized as qualifying expenses are incurred under the terms of the grant or agreements. Donor restricted conditional grants which are recognized and used in the same reporting period, are reported as without donor restrictions.

**Donated Goods and Services** - Donated non-cash assets are recorded at their estimated fair market values in the period received. Donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation, are recorded as revenue and expense at their estimated fair values in the period received. Such amounts are reflected as a part of donated services revenue and program activities expenses in the accompanying statements of activities. In-kind contributions, such as donated property and equipment, are included in the statements of activities at their estimated fair value on the date of donation and either capitalized on the statements of financial position, as it relates to equipment, or shown in the representative functional expense account the contribution relates to.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

**Functional Expense Allocation** - The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities and presented in the statements of functional expenses by their natural categories. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas. Salaries, benefits and payroll taxes are reported across program and supporting services based on a time and effort basis. General operating costs not attributable to a specific functional activity are reported as management and general expenses. Other costs that benefit multiple functional areas have been allocated across program and other supporting services based on a time and effort basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, technology and internet, postage, office supplies and telephone.

Note 2. **Change in Accounting Principle** - The Organization adopted the Financial Accounting Standards Board's Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires entities to recognize revenue when control of the promised goods or services is transferred to the customer at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The Organization adopted the Standard on January 1, 2019 using the modified retrospective approach. The adoption did not materially affect changes in net assets, financial position or cash flows.

The Organization adopted the Financial Accounting Standards Board's Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. A transaction that is considered an exchange transaction is accounted for under the applicable revenue recognition standards. The Organization adopted this ASU prospectively for agreements that were not completed as of December 31, 2018 and for those entered into after December 31, 2018. Accordingly, only the portion of revenue that had not been recognized as of December 31, 2018 was subject to the guidance in ASU 2018-08.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 3. **Liquidity and Availability** -The following represents the Organization’s financial assets at December 31:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,758,665	\$ 1,819,473
Investments	3,505,381	2,956,355
Grants and contributions receivable	2,741,595	2,218,650
Interest receivable	4,857	18,186
Total financial assets	\$ 8,010,498	\$ 7,012,664
Less amounts with restrictions:		
Restricted by donors for purposes	2,251,245	2,429,032
Investments restricted by donors for endowments in perpetuity	769,140	519,058
Financial assets available to meet general expenditures over the next twelve months	\$ 4,990,113	\$ 4,064,574

The Organization receives a majority of its funding from grants and private contributions. As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In order to ensure that the Organization meets the obligations of all grant funding as well as to meet the expectations of its funders and contributors, cash and cash equivalent funds are allocated to four specific fund categories that are monitored by management:

- Operating Fund, which is intended to cover the Organization’s anticipated expenditures on a monthly basis;
- Pre-Paid Program Fund, which is used to manage any restricted grant or other donor-designated funding to be spent on a specific program in the subsequent budget year than when received;
- Operating Reserve Fund, which is intended to provide a reserve in the event of an unanticipated decline in revenues or unanticipated increase in expenses; it is set by formula as 25% of all budgeted unrestricted expenses and 12.5% of all budgeted restricted expenses for the coming budget year; and
- Uncommitted Reserve Fund, which is the remaining balance of funds not allocated into other funds and that can be designated for special projects or needs as warranted.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
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Note 3. **Liquidity and Availability** - (Continued)

In addition, the Organization invests cash in excess of its immediate needs in short-term investments.

Legal Aid also has an investment policy to provide for the regular and continuous management of funds and invests funds not immediately needed to meet expenses in two primary types of investment funds: short term cash and highly liquid short-term instruments for current operating expenditures (Operating Fund) and longer-term instruments (the Pre-Paid Program Fund, Operating Reserve Fund, and Uncommitted Reserve Fund).

Note 4. **Investments** - The aggregate fair values of investments as of December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Exchange-Traded Funds	\$ 2,791,542	\$ 2,095,484
Fixed income securities	688,241	841,171
Common stocks	<u>25,598</u>	<u>19,700</u>
Totals	<u>\$ 3,505,381</u>	<u>\$ 2,956,355</u>

The following summarizes investment income for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	140,610	\$ 125,083
Investment fees	(3,628)	(3,628)
Realized losses on investments	(34,129)	(39,549)
Unrealized gains (losses) on investments	<u>180,957</u>	<u>(45,689)</u>
	<u>\$ 283,810</u>	<u>\$ 36,217</u>

Note 5. **Fair Value Measurements** - Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Note 5. **Fair Value Measurements** - (Continued)

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value:

*Money market funds and exchange-traded funds (no readily available market price)* - These funds are valued by the institutional fund management at the stated price of the fund which generally approximates the original cost and the fair value of the underlying assets.

*Common stock, fixed-income securities and certain exchange-traded funds* - Securities which are traded on a national securities exchange are valued at the closing price reported on the last business day of the year.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 1,110,434	\$ -	\$ 1,110,434
Fixed-income securities	688,241	-	-	688,241
Exchange-traded funds	2,293,008	498,534	-	2,791,542
Common stock	25,598	-	-	25,598
Totals	<u>\$ 3,006,847</u>	<u>\$ 1,608,968</u>	<u>\$ -</u>	<u>\$ 4,615,815</u>
Less: Amount included in cash				<u>(1,110,434)</u>
Total investments				<u>\$ 3,505,381</u>

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
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Note 5. **Fair Value Measurements** - (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 1,493,051	\$ -	\$ 1,493,051
Fixed-income securities	841,171	-	-	841,171
Exchange-traded funds	1,651,055	444,429	-	2,095,484
Common stock	<u>19,700</u>	<u>-</u>	<u>-</u>	<u>19,700</u>
Totals	<u>\$ 2,511,926</u>	<u>\$ 1,937,480</u>	<u>\$ -</u>	<u>\$ 4,449,406</u>
Less: Amount included in cash				<u>(1,493,051)</u>
Total investments				<u>\$ 2,956,355</u>

Note 6. **Property and Equipment** - Property and equipment consists of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 443,857	\$ 286,234
Computer equipment	221,571	148,252
Office furniture and equipment	66,822	52,575
Website	<u>11,289</u>	<u>11,289</u>
Total property and equipment	\$ 743,539	\$ 498,350
Less, accumulated depreciation and amortization	<u>336,115</u>	<u>274,828</u>
Net property and equipment	<u>\$ 407,424</u>	<u>\$ 223,522</u>

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was \$61,288 and \$46,538, respectively.

Note 7. **Revenue Recognition**

Disaggregation of Revenue

The Organization's event tickets revenue are local in nature and uncertainty of payment is mitigated through advance payments prior to the event occurring.

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Note 7. **Revenue Recognition** – (Continued)

The following shows the Organization’s revenue disaggregated according to the timing of transfer of goods and services for the years ended December 31:

	2019	2018
Recognized at a point in time	\$ 115,255	\$ -
Recognized over time	-	-
Total	\$ 115,255	\$ -

Contract Balances

There were no contract assets or liabilities relating to event ticket sales at December 31, 2019.

Performance Obligations

Performance obligations for special events are satisfied at the point in time in which the event occurs.

Significant Judgements

There are no other significant judgements pertaining to special events that are significant to the financial statements.

Note 8. **Commitments** - The Organization amended their office lease to acquire additional office space under a lease term that expires in September 2027. The lease agreement includes escalation clauses relating to increases in the consumer price index, real estate taxes and operating costs, as well as clauses calling for the abatement of a portion of the rent commitment and an allowance for leasehold improvements. This arrangement gives rise to a deferred lease obligation which is being amortized over the term of the lease. The deferred lease obligation as of December 31, 2019 and 2018 was \$1,053,918 and \$648,312, respectively. The Organization has also entered into a five-year non-cancelable operating lease for additional office space in Southeast D.C. that expires on August 17, 2020. Total office rent expense for the years ended December 31, 2019 and 2018 was \$803,504 and \$628,771, respectively.

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Note 8. **Commitments** - (Continued)

During 2015, the Organization entered into a five-year non-cancelable operating lease for three copiers that expires in January 2020. Monthly rental payments on the three copiers are \$1,512. During 2017, the Organization entered into two non-cancelable operating leases for copiers that expires in September 2020 and September 2022. Monthly rental payments on the two copiers range from \$342 to \$651. During 2019, the Organization entered into a three-year non-cancelable operating lease for the use of Sky Data Vault software that expires in May 2023. Monthly rental payments on the software is \$800. Total operating lease expense for the years ended December 31, 2019 and 2018 was \$43,060 and \$34,079, respectively.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Office Leases</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 756,790	\$ 17,314	\$ 774,104
2021	791,415	17,408	808,823
2022	819,114	14,805	833,919
2023	847,791	4,000	851,791
2024	877,455	-	877,455
Thereafter	<u>2,573,563</u>	<u>-</u>	<u>2,573,563</u>
Total	<u>\$ 6,666,128</u>	<u>\$ 53,527</u>	<u>\$ 6,719,655</u>

The Organization has entered into an agreement with a hotel relating to the annual Legal Aid Society Servant of Justice Dinner. This agreement obligates the Organization to spend certain minimums on food and beverages. The May 2020 event was cancelled subsequent to year end and before the issuance of these financial statements. There were no cancellation penalties or other obligations as a result of the cancellation.

Note 9. **Retirement Plan** - The Organization maintains a contributory 401(k) retirement plan (the "Plan") for employees meeting certain eligibility requirements, as outlined in the Plan. Participants are eligible to make voluntary contributions to the Plan upon their initial day of employment. The Organization provides for a discretionary match based on each participant's compensation. The Organization's contribution to the Plan for the years ended December 31, 2019 and 2018 was \$112,963 and \$101,316, respectively.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**

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Note 10. **Donated Goods and Services** - For the years ended December 31, 2019 and 2018, the Organization received \$28,881,923 and \$28,195,939, respectively, of donated services that consisted of legal and consulting services to support its program services. Donated services are recorded at the amount reported by the contributing organization and are typically based on that organization's standard hourly billing rates. The Organization also received donated furniture and equipment valued at \$1,555 and \$6,160, respectively, for the years ended December 31, 2019 and 2018. Donated furniture and equipment are reported as in-kind contributions on the statements of activities.

Note 11. **Net Assets with Donor Restrictions** - Net assets with donor restrictions were for the following purposes as of December 31:

	2019	2018
Subject to expenditure for specific purpose:		
Civil Legal Counsel Projects	\$ 1,095,000	\$ 1,260,321
Neighborhood Access Project	385,000	385,000
Housing Justice Advocacy	161,000	120,000
Child Support Court-Based Legal Services	155,000	155,000
Domestic Violence Victims Project	125,000	132,000
Immigration Rights Legal Services Project	74,718	37,538
Consumer Law	70,000	70,000
Foreclosure Prevention Project	68,000	60,000
Sidley Austin Fellow	58,521	54,133
McDowell Endowment	26,128	24,474
Appellate Advocacy Project	20,000	20,000
Skadden Fellow	10,173	17,598
Klepper Endowment	2,705	2,403
Foreclosure Prevention Program	-	75,612
Community Preservation Project	-	10,620
American University Fellow	-	4,333
Total	\$ 2,251,245	\$ 2,429,032
In perpetuity for endowments:		
McDowell Endowment	\$ 530,575	\$ 467,344
Making Justice Real	181,109	-
Klepper Endowment	51,394	45,652
Da Costa V. Mason	6,062	6,062
Total	\$ 769,140	\$ 519,058
Total net assets with donor restrictions	\$ 3,020,385	\$ 2,948,090

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
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Note 12. **Endowments** - The Organization’s endowments consist of three donor-restricted individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization follows the State Prudent Management of Institutional Funds Act (SPMIFA) and thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Directors appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Directors of the Organization has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

*Investment Return Objectives and Spending Policies:* The Organization’s Board of Directors has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The Organization complies with all donor agreements with respect to the distribution of income and principal of endowment funds which are based on investment earnings and a percentage of endowment assets.

Endowment net assets as of December 31, 2019 are as follows:

	<u>With Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Endowment</u>
		<u>In perpetuity</u>	<u>Net Assets</u>
Donor-restricted endowment funds	\$ 28,833	\$ 769,140	\$ 797,973

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
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Note 12. **Endowments** - (Continued)

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	<u>With Donor Restrictions</u>	<u>With Donor Restrictions In perpetuity</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 26,877	\$ 519,058	\$ 545,935
Contributions	-	190,609	190,609
Investment income	-	88,306	88,306
Endowment funds disbursed	(26,877)	-	(26,877)
Appropriated for expenditure	<u>28,833</u>	<u>(28,833)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 28,833</u>	<u>\$ 769,140</u>	<u>\$ 797,973</u>

Endowment net assets as of December 31, 2018 are as follows:

	<u>With Donor Restrictions</u>	<u>With Donor Restrictions In perpetuity</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds	<u>\$ 26,877</u>	<u>\$ 519,058</u>	<u>\$ 545,935</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>With Donor Restrictions</u>	<u>With Donor Restrictions In perpetuity</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$ 25,730	\$ 551,815	\$ 577,545
Contributions	-	33,500	33,500
Investment loss	-	(39,380)	(39,380)
Endowment funds disbursed	(25,730)	-	(25,730)
Appropriated for expenditure	<u>26,877</u>	<u>(26,877)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 26,877</u>	<u>\$ 519,058</u>	<u>\$ 545,935</u>

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Note 13. **Concentration of Credit Risk** - Financial instruments which potentially subject the Organization to concentrations of credit risk include cash deposits with investment advisors, as well as deposits with financial institutions which, at times during the year, may exceed the limit of insurance coverage by the Federal Deposit Insurance Corporation (FDIC). The Organization attempts to minimize this risk by maintaining deposits at institutions it assesses as high quality. At December 31, 2019, the Organization's uninsured cash balances total \$1,490,559.

Note 14. **Reclassifications** - Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation.

Note 15. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 1, 2020, which is the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**

**SCHEDULES OF ACTIVITIES**

**(WITHOUT DONATED SERVICES)**

	FOR THE YEARS ENDED DECEMBER 31,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE, SUPPORT AND GAINS:</b>						
Grants and contributions	\$ 3,544,726	\$ 3,040,973	\$ 6,585,699	\$ 2,999,218	\$ 2,942,255	\$ 5,941,473
Special events	1,293,772	-	1,293,772	1,174,884	-	1,174,884
Less: direct benefits to donors	(172,364)	-	(172,364)	(144,577)	-	(144,577)
Investment income, net	195,504	88,306	283,810	75,597	(39,380)	36,217
Legal fees	265,769	-	265,769	86,924	-	86,924
Event ticket sales	115,255	-	115,255	-	-	-
In-kind contributions	1,555	-	1,555	6,160	-	6,160
Miscellaneous income	-	-	-	3,742	-	3,742
Net assets released from restrictions	3,056,984	(3,056,984)	-	2,765,227	(2,765,227)	-
<b>TOTAL REVENUE, SUPPORT AND GAINS</b>	<b>\$ 8,301,201</b>	<b>\$ 72,295</b>	<b>\$ 8,373,496</b>	<b>\$ 6,967,175</b>	<b>\$ 137,648</b>	<b>\$ 7,104,823</b>
<b>EXPENSES:</b>						
Program service	\$ 6,265,535	\$ -	\$ 6,265,535	\$ 5,357,043	\$ -	\$ 5,357,043
Fundraising	677,158	-	677,158	616,706	-	616,706
Management and general	653,045	-	653,045	596,377	-	596,377
<b>TOTAL EXPENSES</b>	<b>\$ 7,595,738</b>	<b>\$ -</b>	<b>\$ 7,595,738</b>	<b>\$ 6,570,126</b>	<b>\$ -</b>	<b>\$ 6,570,126</b>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 705,463</b>	<b>\$ 72,295</b>	<b>\$ 777,758</b>	<b>\$ 397,049</b>	<b>\$ 137,648</b>	<b>\$ 534,697</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,555,584</b>	<b>2,948,090</b>	<b>6,503,674</b>	<b>3,158,535</b>	<b>2,810,442</b>	<b>5,968,977</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 4,261,047</b>	<b>\$ 3,020,385</b>	<b>\$ 7,281,432</b>	<b>\$ 3,555,584</b>	<b>\$ 2,948,090</b>	<b>\$ 6,503,674</b>