

**LEGAL AID SOCIETY OF
THE DISTRICT OF COLUMBIA
DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, and the 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, 2018 and 2017 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

June 12, 2019

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

	DECEMBER 31,	
	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1, 5 and 12)	\$ 1,819,473	\$ 1,023,452
Investments (Notes 1, 4 and 5)	2,956,355	2,393,786
Grants and contributions receivable (Note 1)	2,218,650	2,653,150
Interest receivable and prepaid expenses	141,992	90,844
Other receivables	-	28,150
TOTAL CURRENT ASSETS	\$ 7,136,470	\$ 6,189,382
PROPERTY AND EQUIPMENT (Notes 1 and 6)	223,522	237,634
OTHER ASSETS:		
Deposits	42,348	36,300
TOTAL ASSETS	\$ 7,402,340	\$ 6,463,316
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 165,354	\$ 138,305
Deferred revenue (Note 1)	85,000	23,149
TOTAL CURRENT LIABILITIES	\$ 250,354	\$ 161,454
NON-CURRENT LIABILITIES:		
Deferred lease obligation (Note 7)	648,312	332,885
TOTAL LIABILITIES	\$ 898,666	\$ 494,339
COMMITMENTS (Note 7)		
NET ASSETS (Notes 1, 10 and 11):		
Without donor restrictions	\$ 3,555,584	\$ 3,158,535
With donor restrictions	2,948,090	2,810,442
TOTAL NET ASSETS	\$ 6,503,674	\$ 5,968,977
TOTAL LIABILITIES AND NET ASSETS	\$ 7,402,340	\$ 6,463,316

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED DECEMBER 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND GAINS (Notes 1 and 9):						
Donated services	\$ 28,195,939	\$ -	\$ 28,195,939	\$ 22,917,449	\$ -	\$ 22,917,449
Grants and contributions	3,086,142	2,942,255	6,028,397	3,064,410	4,178,635	7,243,045
Special events	1,174,884	-	1,174,884	1,227,932	-	1,227,932
Less: direct benefits to donors	(144,577)		(144,577)	(147,180)		(147,180)
Investment income, net	75,597	(39,380)	36,217	19,904	64,387	84,291
In-kind contributions	6,160	-	6,160	8,261	-	8,261
Miscellaneous income	3,742	-	3,742	-	-	-
Net assets released from restrictions	2,765,227	(2,765,227)	-	2,582,602	(2,582,602)	-
TOTAL REVENUE, SUPPORT AND GAINS	<u>\$ 35,163,114</u>	<u>\$ 137,648</u>	<u>\$ 35,300,762</u>	<u>\$ 29,673,378</u>	<u>\$ 1,660,420</u>	<u>\$ 31,333,798</u>
EXPENSES:						
Program services	\$ 33,552,982	\$ -	\$ 33,552,982	\$ 27,572,598	\$ -	\$ 27,572,598
Fundraising	616,706	-	616,706	483,180	-	483,180
Management and general	596,377	-	596,377	470,151	-	470,151
TOTAL EXPENSES	<u>\$ 34,766,065</u>	<u>\$ -</u>	<u>\$ 34,766,065</u>	<u>\$ 28,525,929</u>	<u>\$ -</u>	<u>\$ 28,525,929</u>
CHANGES IN NET ASSETS	\$ 397,049	\$ 137,648	\$ 534,697	\$ 1,147,449	\$ 1,660,420	\$ 2,807,869
NET ASSETS, BEGINNING OF YEAR	<u>3,158,535</u>	<u>2,810,442</u>	<u>5,968,977</u>	<u>2,011,086</u>	<u>1,150,022</u>	<u>3,161,108</u>
NET ASSETS, END OF YEAR	<u>\$ 3,555,584</u>	<u>\$ 2,948,090</u>	<u>\$ 6,503,674</u>	<u>\$ 3,158,535</u>	<u>\$ 2,810,442</u>	<u>\$ 5,968,977</u>

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

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

FOR THE YEARS ENDED DECEMBER 31,

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Donated services (Note 9)	\$ 28,195,939	\$ -	\$ -	\$ 28,195,939	\$ 22,917,449	\$ -	\$ -	\$ 22,917,449
Salaries	3,804,315	376,928	334,917	4,516,160	3,209,485	314,370	266,379	3,790,234
Occupancy (Note 7)	530,136	52,228	46,407	628,771	501,768	46,624	39,507	587,899
Employee benefits	441,884	43,781	38,902	524,567	393,629	38,556	32,670	464,855
Payroll taxes	285,160	28,253	25,104	338,517	240,656	23,572	19,974	284,202
Technology and internet	68,001	6,737	5,987	80,725	52,783	4,610	6,179	63,572
Office supplies and expenses	60,860	6,030	5,358	72,248	47,190	4,622	3,916	55,728
Printing and publications	4,809	437	55,546	60,792	4,562	447	48,197	53,206
Telephone	43,439	3,724	3,309	50,472	25,311	1,813	1,536	28,660
Depreciation and amortization (Note 6)	39,203	3,884	3,451	46,538	46,421	4,547	3,853	54,821
Bank and credit card fees	-	2,770	40,494	43,264	-	6,709	9,695	16,404
Professional services	850	39,502	70	40,422	38,947	4,475	25,734	69,156
Bad debt	-	369	33,000	33,369	-	1,686	-	1,686
Insurance	24,450	2,915	-	27,365	23,031	3,019	-	26,050
Dues and subscriptions	20,720	4,793	-	25,513	18,060	2,150	-	20,210
Training	17,872	2,436	1,112	21,420	33,819	1,177	997	35,993
Postage and shipping	109	9,390	10,463	19,962	2	11,774	7,258	19,034
Other program expenses	15,235	-	-	15,235	19,485	-	-	19,485
Special events	-	-	12,586	12,586	-	-	17,285	17,285
Taxes - other	-	12,200	-	12,200	-	-	-	-
	<u>\$ 33,552,982</u>	<u>\$ 596,377</u>	<u>\$ 616,706</u>	<u>\$ 34,766,065</u>	<u>\$ 27,572,598</u>	<u>\$ 470,151</u>	<u>\$ 483,180</u>	<u>\$ 28,525,929</u>

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

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

	FOR THE YEARS ENDED DECEMBER 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 534,697	\$ 2,807,869
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	46,538	54,821
Net realized and unrealized losses (gains) on investments	85,238	(21,828)
Donated securities recorded as revenue	(80,799)	(29,684)
Donated furniture and equipment recorded as revenue	(6,160)	(8,261)
Leasehold improvement allowance	-	(121,472)
Bad debts	33,369	1,686
Change in operating assets and liabilities:		
Decrease (increase) in grants and contributions receivable	401,131	(2,189,106)
Decrease (increase) in other receivables	28,150	(28,150)
Decrease (increase) in interest receivable and prepaid expenses	(51,148)	29,512
Increase in accounts payable and accrued expenses	27,049	21,347
Increase (decrease) in deferred revenue	61,851	(2,683)
Increase in deferred lease obligation	315,427	103,311
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,395,343	\$ 617,362
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	\$ 1,034,548	\$ 394,132
Purchases of investments	(1,601,558)	(1,351,580)
Payments for security deposits	(6,048)	(12,294)
Payments for purchases of property and equipment	(26,264)	(2,637)
NET CASH USED IN INVESTING ACTIVITIES	\$ (599,322)	\$ (972,379)
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 796,021	\$ (355,017)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,023,452	1,378,469
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,819,473	\$ 1,023,452

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, public housing, preservation of affordable housing, health care, public benefits and consumer law.

Program Services - 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, securing safety from domestic violence and finding family stability. The Organization also has a nationally-recognized appellate program, 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, 2018 AND 2017

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, 2018 and 2017. 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. 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 - 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. Donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Revenue Recognition - (Continued)

Revenue from cost-reimbursable grants is recognized when the related costs have been incurred. Revenue from special events is recognized in the period the event occurs. Amounts received in advance for registrations for future events is recorded as deferred revenue.

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.

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 other supporting services based on a time and effort basis. General operating costs not attributable to a program function 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 2016-14, *Presentation of Not-for-profit Financial Statements*. ASU 2016-14 requires the presentation of natural expenses by the various types of programs and supporting services, requires certain information about an organization's liquidity and cost allocation methods, clarified the definition of management and general costs, and modified the terminology of net asset categories, among other changes. The implementation of this ASU had no effect on the changes in net asset classes for either period presented. The former categories of temporarily restricted net assets and permanently restricted net assets are now combined and reported as "net assets with donor restrictions."

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3. **Liquidity and Availability** -The following represents the Organization’s financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	\$ 1,819,473
Investments	2,956,355
Grants and contributions receivable	2,218,650
Interest receivable	18,186
Total financial assets	\$ 7,012,664
Less amounts with restrictions:	
Restricted by donors for purposes	2,429,032
Investments restricted by donors for endowments in perpetuity	519,058
Financial assets available to meet general expenditures over the next twelve months	\$ 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 come 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.

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3. **Liquidity and Availability** - (Continued)

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, 2018 and 2017 are summarized as follows:

	2018	2017
Exchange-Traded Funds	\$ 2,095,484	\$ 1,128,921
Fixed income securities	841,171	1,243,652
Common stocks	19,700	21,213
Totals	\$ 2,956,355	\$ 2,393,786

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.

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.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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 - The 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.

Fixed-income securities - Fixed income securities are traded on a national securities exchange are valued at the closing price reported on the last business day of the year.

Common stock and 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:

	2018			
	Level 1	Level 2	Level 3	Total
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	19,700	-	-	19,700
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>

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

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 551,908	\$ -	\$ 551,908
Fixed-income securities	1,243,651	-	-	1,243,651
Exchange-traded funds	679,489	449,432	-	1,128,921
Common stock	21,214	-	-	21,214
Totals	\$ 1,944,354	\$ 1,001,340	\$ -	\$ 2,945,694
Less: Amount included in cash				(551,908)
Total investments				\$ 2,393,786

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

	2018	2017
Interest and dividends	\$ 125,083	\$ 65,675
Investment fees	(3,628)	(3,213)
Realized losses on investments	(39,549)	(20,531)
Unrealized gains (losses) on investments	(45,689)	42,360
	\$ 36,217	\$ 84,291

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

	2018	2017
Leasehold improvements	\$ 286,234	\$ 286,234
Computer equipment	148,252	121,957
Office furniture and equipment	52,575	46,883
Website	11,289	11,289
Total property and equipment	\$ 498,350	\$ 466,363
Less, accumulated depreciation and amortization	274,828	228,729
Net property and equipment	\$ 223,522	\$ 237,634

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$46,538 and \$54,821, respectively.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
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Note 7. **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, 2018 and 2017 was \$648,312 and \$332,885, 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, 2018 and 2017 was \$628,771 and \$587,899, respectively.

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. Total rental expense for the years ended December 31, 2018 and 2017 was \$34,079 and \$21,765, respectively.

Future minimum lease payments are as follows:

Years Ending December 31,	Office Leases	Equipment	Total
2019	\$ 464,507	\$ 30,057	\$ 494,564
2020	704,393	11,714	716,107
2021	713,667	7,808	721,475
2022	738,642	5,205	743,847
2023	764,499	-	764,499
Thereafter	3,111,586	-	3,111,586
Total	<u>\$ 6,497,294</u>	<u>\$ 54,784</u>	<u>\$ 6,552,078</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.

Note 8. **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 of each participant’s compensation. The Organization’s contribution to the Plan for the years ended December 31, 2018 and 2017 was \$101,316 and \$73,327, respectively.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 9. **Donated Goods and Services** - For the years ended December 31, 2018 and 2017, the Organization received \$28,195,939 and \$22,917,449, respectively, of in-kind contributions 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 \$6,160 and \$8,261, respectively, for the years ended December 31, 2018 and 2017.

Note 10. **Net Assets with Donor Restrictions** - Net assets with donor restrictions were for the following purposes as of December 31:

	2018	2017
Subject to expenditure for specific purpose:		
Civil Legal Counsel Projects	\$ 1,260,321	\$ 1,157,346
Neighborhood Access Project	385,000	385,000
Child Support Court-Based Legal Services	155,000	175,000
Domestic Violence Victims Project	132,000	130,000
Housing Justice Advocacy	120,000	-
Foreclosure Prevention Program	75,612	169,413
Consumer Law	70,000	-
Foreclosure Prevention Project	60,000	70,000
Sidley Austin Fellow	54,133	67,245
Immigration Rights Legal Services Project	37,538	-
McDowell Endowment	24,474	22,991
Appellate Advocacy Project	20,000	20,000
Skadden Fellow	17,598	-
Community Preservation Project	10,620	58,893
American University Fellow	4,333	-
Klepper Endowment	2,403	2,739
Total	\$ 2,429,032	\$ 2,258,627
In perpetuity for endowments:		
McDowell Endowment	\$ 467,344	\$ 496,200
Klepper Endowment	45,652	49,553
Da Costa V. Mason	6,062	6,062
Total	\$ 519,058	\$ 551,815
Total net assets with donor restrictions	\$ 2,948,090	\$ 2,810,442

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 11. **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, 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>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 11. **Endowments** - (Continued)

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	26,877	(26,877)	-
Endowment net assets, end of year	<u>\$ 26,877</u>	<u>\$ 519,058</u>	<u>\$ 545,935</u>

Endowment net assets as of December 31, 2017 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>\$ 25,730</u>	<u>\$ 551,815</u>	<u>\$ 577,545</u>

Changes in endowment net assets for the year ended December 31, 2017 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	\$ 23,516	\$ 491,308	\$ 514,824
Contributions	-	21,850	21,850
Investment income	-	64,387	64,387
Endowment funds disbursed	(23,516)	-	(23,516)
Appropriated for expenditure	25,730	(25,730)	-
Endowment net assets, end of year	<u>\$ 25,730</u>	<u>\$ 551,815</u>	<u>\$ 577,545</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 12. **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, 2018, the Organization's uninsured cash balances total \$1,309,155.

Note 13. **Reclassifications** - Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation.

Note 14. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 12, 2019, 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,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND GAINS:						
Grants and contributions	\$ 3,086,142	\$ 2,942,255	\$ 6,028,397	\$ 3,064,410	\$ 4,178,635	\$ 7,243,045
Special events	1,174,884	-	1,174,884	1,227,932	-	1,227,932
Less: direct benefits to donors	(144,577)		(144,577)	(147,180)		(147,180)
Investment income, net	75,597	(39,380)	36,217	19,904	64,387	84,291
In-kind contributions	6,160	-	6,160	8,261	-	8,261
Miscellaneous income	3,742	-	3,742	-	-	-
Net assets released from restrictions	<u>2,765,227</u>	<u>(2,765,227)</u>	<u>-</u>	<u>2,582,602</u>	<u>(2,582,602)</u>	<u>-</u>
TOTAL REVENUE, SUPPORT AND GAINS	<u>\$ 6,967,175</u>	<u>\$ 137,648</u>	<u>\$ 7,104,823</u>	<u>\$ 6,755,929</u>	<u>\$ 1,660,420</u>	<u>\$ 8,416,349</u>
EXPENSES:						
Program services	\$ 5,357,043	\$ -	\$ 5,357,043	\$ 4,655,149	\$ -	\$ 4,655,149
Fundraising	616,706	-	616,706	483,180	-	483,180
Management and general	<u>596,377</u>	<u>-</u>	<u>596,377</u>	<u>470,151</u>	<u>-</u>	<u>470,151</u>
TOTAL EXPENSES	<u>\$ 6,570,126</u>	<u>\$ -</u>	<u>\$ 6,570,126</u>	<u>\$ 5,608,480</u>	<u>\$ -</u>	<u>\$ 5,608,480</u>
CHANGES IN NET ASSETS	\$ 397,049	\$ 137,648	\$ 534,697	\$ 1,147,449	\$ 1,660,420	\$ 2,807,869
NET ASSETS, BEGINNING OF YEAR	<u>3,158,535</u>	<u>2,810,442</u>	<u>5,968,977</u>	<u>2,011,086</u>	<u>1,150,022</u>	<u>3,161,108</u>
NET ASSETS, END OF YEAR	<u>\$ 3,555,584</u>	<u>\$ 2,948,090</u>	<u>\$ 6,503,674</u>	<u>\$ 3,158,535</u>	<u>\$ 2,810,442</u>	<u>\$ 5,968,977</u>