

**LEGAL AID SOCIETY OF
THE DISTRICT OF COLUMBIA
DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

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, which comprise of the statements of financial position as of December 31, 2012 and 2011, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2012 and 2011, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Activities (Without Donated Services) is presented for purposes of additional analysis and is 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 audit 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.

Scupins and Rhoades, LLP

May 8, 2013

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

	DECEMBER 31,	
ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	\$ 382,476	\$ 672,281
Investments (Notes 1 and 2)	2,062,195	1,778,818
Grants and contributions receivable (Notes 1 and 3)	179,874	154,594
Interest receivable and prepaid expenses	47,452	46,368
TOTAL CURRENT ASSETS	\$ 2,671,997	\$ 2,652,061
PROPERTY AND EQUIPMENT (Notes 1 and 4)	\$ 105,749	\$ 80,544
OTHER ASSETS:		
Deposit	\$ 23,273	\$ 55,273
TOTAL ASSETS	\$ 2,801,019	\$ 2,787,878
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 91,228	\$ 95,732
Capital lease obligation, current portion (Note 5)	5,255	4,752
TOTAL CURRENT LIABILITIES	\$ 96,483	\$ 100,484
OTHER LIABILITIES:		
Capital lease obligations, net of current portion (Note 5)	\$ 5,305	\$ 10,560
Deferred lease obligation (Note 6)	356,679	248,727
TOTAL OTHER LIABILITIES	\$ 361,984	\$ 259,287
TOTAL LIABILITIES	\$ 458,467	\$ 359,771
COMMITMENTS (Note 6)		
NET ASSETS (Notes 1 and 9):		
Unrestricted	\$ 1,642,743	\$ 1,750,728
Temporarily restricted	373,052	396,947
Permanently restricted	326,757	280,432
TOTAL NET ASSETS	\$ 2,342,552	\$ 2,428,107
TOTAL LIABILITIES AND NET ASSETS	\$ 2,801,019	\$ 2,787,878

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,

	2012		2011							
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE:										
Contributed services (Notes 1 and 8)	\$ 16,485,245	\$ -	\$ -	\$ 16,485,245	\$ 8,133,997	\$ 8,133,997	\$ -	\$ -	\$ -	\$ 8,133,997
Grants and contributions (Note 1)	1,742,908	1,277,792	35,500	3,056,200	1,453,920	1,453,920	1,116,764	32,000	2,602,684	
Special events	860,059	-	-	860,059	725,150	725,150	-	-	725,150	
Investment income (Note 1)	91,037	-	25,446	116,483	58,083	58,083	-	14,431	72,514	
Sublease income	44,660	-	-	44,660	-	-	-	-	-	
In-kind contributions (Note 1)	1,400	-	-	1,400	76,239	76,239	-	-	76,239	
Miscellaneous income	37	-	-	37	103	103	-	-	103	
Net assets released from restrictions	1,316,308	(1,301,687)	(14,621)	-	1,044,607	(1,032,114)	(12,493)	-	-	
TOTAL REVENUE	<u>\$ 20,541,654</u>	<u>\$ (23,895)</u>	<u>\$ 46,325</u>	<u>\$ 20,564,084</u>	<u>\$ 11,492,099</u>	<u>\$ 84,650</u>	<u>\$ 33,938</u>	<u>\$ 11,610,687</u>		
EXPENSES:										
Program services	\$ 19,765,553	\$ -	\$ -	\$ 19,765,553	\$ 10,810,730	\$ 10,810,730	\$ -	\$ -	\$ 10,810,730	
Fundraising	484,992	-	-	484,992	461,345	461,345	-	-	461,345	
Management and general	399,094	-	-	399,094	348,713	348,713	-	-	348,713	
TOTAL EXPENSES	<u>\$ 20,649,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,649,639</u>	<u>\$ 11,620,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,620,788</u>		
CHANGE IN NET ASSETS	\$ (107,985)	\$ (23,895)	\$ 46,325	\$ (85,555)	\$ (128,689)	\$ 84,650	\$ 33,938	\$ (10,101)		
NET ASSETS, BEGINNING OF YEAR	<u>1,750,728</u>	<u>396,947</u>	<u>280,432</u>	<u>2,428,107</u>	<u>1,879,417</u>	<u>312,297</u>	<u>246,494</u>	<u>2,438,208</u>		
NET ASSETS, END OF YEAR	<u>\$ 1,642,743</u>	<u>\$ 373,052</u>	<u>\$ 326,757</u>	<u>\$ 2,342,552</u>	<u>\$ 1,750,728</u>	<u>\$ 396,947</u>	<u>\$ 280,432</u>	<u>\$ 2,428,107</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,

	2012			2011				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Donated services	\$ 16,485,245	\$ -	\$ -	\$ 16,485,245	\$ 8,133,997	\$ -	\$ -	\$ 8,133,997
Salaries	2,205,471	268,422	220,510	2,694,403	1,789,496	233,127	194,672	2,217,295
Occupancy	435,181	53,071	42,457	530,709	338,600	44,111	36,835	419,546
Employee benefits	206,488	25,182	20,145	251,815	173,194	22,563	18,841	214,598
Payroll taxes	175,809	21,440	17,152	214,401	137,840	17,957	14,995	170,792
Special events	-	-	104,689	104,689	-	-	97,354	97,354
Professional services	64,876	7,505	6,165	78,546	77,906	10,149	34,868	122,923
Office supplies and expenses	56,718	6,925	5,689	69,332	46,012	5,995	5,005	57,012
Printing and publications	12,826	1,564	45,692	60,083	8,760	1,141	41,594	51,495
Miscellaneous	40,542	4,944	3,955	49,441	29,915	3,897	3,254	37,066
Postage and shipping	7,440	907	11,153	19,500	12,662	1,650	7,144	21,456
Telephone	28,835	3,509	2,882	35,226	28,225	3,677	3,071	34,973
Depreciation and amortization	32,819	4,002	3,202	40,023	17,248	2,247	1,876	21,371
Insurance	12,213	1,489	1,192	14,894	15,296	1,993	1,664	18,953
Interest	1,090	133	109	1,332	1,579	206	172	1,957
	<u>\$ 19,765,553</u>	<u>\$ 399,094</u>	<u>\$ 484,992</u>	<u>\$ 20,649,639</u>	<u>\$ 10,810,730</u>	<u>\$ 348,713</u>	<u>\$ 461,345</u>	<u>\$ 11,620,788</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,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (85,555)	\$ (10,101)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,023	21,371
Loss (gain) on sale of investments	(30,887)	4,911
Forgiveness of capital lease	-	(145)
Donated securities	(4,680)	(4,804)
Donated furniture and equipment	(1,400)	(49,846)
Uncollectable pledge receivable	10,000	-
Change in assets and liabilities:		
Grants and contributions receivable	(35,280)	(39,614)
Interest receivable and prepaid expenses	(1,084)	3,990
Accounts payable and accrued expenses	(4,504)	34,412
Deferred lease obligation	107,952	18,550
NET CASH USED IN OPERATING ACTIVITIES	\$ (5,415)	\$ (21,276)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	\$ 905,836	\$ 1,009,905
Purchases of investments	(1,153,646)	(511,330)
Payments for purchases of property and equipment	(63,828)	(11,903)
Refund of security deposit	32,000	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ (279,638)	\$ 486,672
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	\$ (4,752)	\$ (7,202)
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (289,805)	\$ 458,194
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	672,281	214,087
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 382,476	\$ 672,281
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 1,332	\$ 1,957

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, 2012 AND 2011

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 persons who are either District of Columbia ("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, 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 Presentation - 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. The financial statements reflect unrestricted, temporarily restricted, and permanently restricted net assets and activities. Resources for various purposes are classified for accounting and financial reporting purposes into net asset categories established according to their nature and purpose as follows:

- *Unrestricted net assets*: Unrestricted net assets 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.
- *Temporarily restricted net assets*: Temporarily restricted net assets are comprised of funds which are restricted by donors for specific purposes. The restrictions are satisfied either by the passage of time or by actions of the Organization.
- *Permanently restricted net assets*: Permanently restricted net assets include resources with permanent donor-imposed restrictions.

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 contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

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). The Organization is considered a public charity under Section 509(a)(1) of the IRC. There was no unrelated business income for the years ended December 31, 2012 and 2011. The Organization's federal information returns (Form 990, Return of Organization Exempt from Income Tax) are not subject to examination by the IRS for the years ended December 31, 2008 and prior.

Use of Estimates - The presentation of financial statements in conformity with 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.

Investments - Investments are measured at fair value at the statement of financial position date. Investments include exchange-traded funds, certificates of deposit, mutual funds and fixed income securities held with investment brokers. Investment income is comprised of interest and unrealized gains and losses on investments and is reported in the statements of activities.

Property and Equipment - Furniture 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.

Donated Goods and Services - Contributions of donated non-cash assets are recorded at their estimated fair market values in the period received. Contributions of 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 contributed services revenue and program activities expenses in the accompanying statements of activities.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

Donated Goods and Services (Continued) – In-kind contributions, such as donated property and equipment and donated photography services, are included in the statements of activities at their estimated fair market 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 Allocation of Expenses - The Organization allocates salaries, benefits, rent and other overhead expenses to the various programs and supporting services based on the estimated amount of time staff worked in each functional area.

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.

Reclassifications – Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Note 2. **Fair Value Measurements** - The Financial Accounting Standards Board (FASB) Accounting Standards Codification establishes 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 as follows: level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets; level 2 inputs are observable market data, generally other than quoted prices; level 3 inputs are significant unobservable data. The asset'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.

Following is a description of the valuation methodologies used for assets 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.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 2. Fair Value Measurements - (Continued)

Certificates of deposit and fixed income mutual funds - Certificates of deposit and fixed income mutual funds are valued using appraisals from independent quotation services based on closing prices or other factors.

Equity mutual funds, fixed income securities, 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:

Assets at fair value as of December 31, 2012:				
	Level 1	Level 2	Level 3	Total
Exchange-traded funds	\$ 867,284	\$ -	\$ -	\$ 867,284
Fixed income securities	-	557,937	-	557,937
Certificates of deposit	-	406,705	-	406,705
Equity mutual funds	194,096	-	-	194,096
Money market funds	-	65,191	-	65,191
Fixed income mutual funds	35,604	-	-	35,604
	<u>\$ 1,096,984</u>	<u>\$ 1,029,833</u>	<u>\$ -</u>	<u>\$ 2,126,817</u>

Assets at fair value as of December 31, 2011:				
	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ -	\$ 910,608	\$ -	\$ 910,608
Fixed income securities	-	543,353	-	543,353
Money market funds	-	528,916	-	528,916
Exchange-traded funds	153,712	-	-	153,712
Equity mutual funds	104,278	-	-	104,278
Fixed income mutual funds	66,867	-	-	66,867
	<u>\$ 324,857</u>	<u>\$ 1,982,877</u>	<u>\$ -</u>	<u>\$ 2,307,735</u>

Note 3. Grants and Contributions Receivable - Grants and contributions receivable represent amounts pledged but not collected. These items, 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. Management expects the amounts to be received within the coming year.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 4. **Property and Equipment** - Property and equipment consists of the following as of December 31:

	2012	2011
Computer equipment	\$ 113,209	\$ 131,648
Office furniture and equipment	63,373	55,877
Leasehold improvements	55,292	-
Total property and equipment	\$ 231,874	\$ 187,525
Less, accumulated depreciation and amortization	126,125	106,981
Net property and equipment	\$ 105,749	\$ 80,544

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was \$40,023 and \$21,371, respectively.

Note 5. **Capital Lease** - The Organization has entered into a capital lease agreement for a copier. The obligation is payable through 2014. At December 31, 2012 and 2011, the net book value of the copier was \$9,123 and \$13,883, respectively. The cost and accumulated depreciation is included in property and equipment on the statements of financial position.

Future minimum payments under the obligation as of December 31 are as follows:

Years Ending	Amounts
2013	\$ 6,084
2014	5,577
Total minimum lease payments	\$ 11,661
Less, amounts representing interest	1,101
Present value of minimum lease payments	\$ 10,560
Less, current maturities	5,255
Capital lease obligation, net of current portion	\$ 5,305

Note 6. **Commitments** - The Organization has entered into a twelve-year noncancelable operating lease for office space that expires July 31, 2019. 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 lease agreement. In November 2011, the Organization amended the original lease and entered into a new lease agreement for additional office space. Modifications to the original lease agreement call for escalation clauses, the abatement of a portion of the lease commitment, and an allowance for leasehold improvements. The change in the rentable space resulted in an increase in the deferred lease

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 6. **Commitments** - (Continued)

obligation reported on the statements of financial position. The deferred lease obligation as of December 31, 2012 and 2011 was \$356,679 and \$248,727, respectively. Total rent expense for the years ended December 31, 2012 and 2011, was \$530,709 and \$419,546, respectively.

The Organization entered into an operating lease for additional space in Southeast D.C. that expires on July 31, 2013. Rent payments are \$1,000 per month.

The Organization has two operating leases for copiers. The monthly lease payments range from \$177 to \$758. Total rent expense for the copiers for the years ended December 31, 2012 and 2011 was \$11,064 and \$6,516, respectively.

Future minimum lease commitments as of December 31 are as follows:

<u>Years Ending</u>	<u>Office Leases</u>	<u>Sub-rental Income</u>	<u>Equipment Lease</u>	<u>Total</u>
2013	522,681	(44,660)	11,220	489,241
2014	536,382	-	11,220	547,602
2015	550,447	-	10,158	560,605
2016	564,881	-	9,096	573,977
2017	579,698	-	4,548	584,246
Thereafter	948,280	-	-	948,280
Total	<u>\$ 3,702,369</u>	<u>\$ (44,660)</u>	<u>\$ 46,242</u>	<u>\$ 3,703,951</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 7. **Retirement Plan** - The Organization maintains a contributory 401(k) retirement plan for employees meeting certain eligibility requirements, as outlined in the plan. Participants are eligible to make voluntary contributions to the plan after one year of employment. The Organization provides for a discretionary match of each participant's compensation. Employees may also defer a portion of their compensation. The Organization's contribution to the plan for the years ended December 31, 2012 and December 31, 2011 was \$53,045 and \$38,303, respectively.

Note 8. **Donated Goods and Services** - For the years ended December 31, 2012 and 2011, the Organization received \$16,485,245 and \$8,160,390, respectively, of in-kind donations that consisted of legal and consulting services.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 9. **Restricted Net Assets** - Temporarily restricted net assets were for the following purposes as of December 31:

	<u>2012</u>	<u>2011</u>
Neighborhood Access Project	\$ 124,067	\$ 149,877
Landlord and Tenant Court	83,115	101,809
Child Support Court-Based Legal Services	52,743	75,673
Domestic Violence Victims Project	42,991	5,000
Public Benefits/Consumer Health Rights	19,944	17,862
Equal Justice Works Fellowship	13,333	6,500
McDowell Endowment	12,083	10,155
Skadden Fellowship	10,786	-
Appellate Advocacy Project	7,986	17,733
Skadden - Flom Incubator Project	3,466	10,000
Klepper Endowment	2,538	2,338
Total	<u>\$ 373,052</u>	<u>\$ 396,947</u>

Permanently restricted net assets consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
McDowell Endowment	\$ 272,469	\$ 229,933
Klepper Endowment	48,226	44,437
Da Costa V. Mason	6,062	6,062
Total	<u>\$ 326,757</u>	<u>\$ 280,432</u>

Note 10. **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 Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, unless the endowment requires or permits otherwise, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Note 10. **Endowments** - (Continued)

restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization's investment policies.

Investment Return Objectives and Spending Policies: The Organization has adopted investment policies, approved by the Board of Directors, 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.

Endowment net assets as of December 31, 2012 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	\$ 14,621	\$ 326,757	\$ 341,378

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 12,493	\$ 280,432	\$ 292,925
Contributions	-	35,500	35,500
Investment income	-	25,446	25,446
Endowment funds disbursed	(12,493)	-	(12,493)
Additional required disbursements	14,621	(14,621)	-
Endowment net assets, end of year	\$ 14,621	\$ 326,757	\$ 341,378

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 10. **Endowments** - (Continued)

Endowment net assets as of December 31, 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 12,493</u>	<u>\$ 280,432</u>	<u>\$ 292,925</u>

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 13,956	\$ 246,494	\$ 260,450
Contributions	-	32,000	32,000
Investment income	-	14,431	14,431
Endowment funds disbursed	(13,956)	-	(13,956)
Additional required disbursements	<u>12,493</u>	<u>(12,493)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 12,493</u>	<u>\$ 280,432</u>	<u>\$ 292,925</u>

Note 11. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 8, 2013, 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,

	2012		2011				
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE:							
Grants and contributions	\$ 1,742,908	\$ 1,277,792	\$ 35,500	\$ 1,453,920	\$ 1,116,764	\$ 32,000	\$ 2,602,684
Special events	860,059	-	-	725,150	-	-	725,150
Investment income	91,037	-	25,446	58,083	-	14,431	72,514
Sublease income	44,660	-	-	-	-	-	-
In-kind contributions	1,400	-	-	76,239	-	-	76,239
Miscellaneous income	37	-	-	103	-	-	103
Net assets released from restrictions	1,316,308	(1,301,687)	(14,621)	1,044,607	(1,032,114)	(12,493)	-
TOTAL REVENUE	<u>\$ 4,056,409</u>	<u>\$ (23,895)</u>	<u>\$ 46,325</u>	<u>\$ 3,358,102</u>	<u>\$ 84,650</u>	<u>\$ 33,938</u>	<u>\$ 3,476,690</u>
EXPENSES:							
Program services	\$ 3,280,308	\$ -	\$ -	\$ 2,676,733	\$ -	\$ -	\$ 2,676,733
Fundraising	484,992	-	-	461,345	-	-	461,345
Management and general	399,094	-	-	348,713	-	-	348,713
TOTAL EXPENSES	<u>\$ 4,164,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,486,791</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,486,791</u>
CHANGE IN NET ASSETS	<u>\$ (107,985)</u>	<u>\$ (23,895)</u>	<u>\$ 46,325</u>	<u>\$ (128,689)</u>	<u>\$ 84,650</u>	<u>\$ 33,938</u>	<u>\$ (10,101)</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,750,728</u>	<u>396,947</u>	<u>280,432</u>	<u>1,879,417</u>	<u>312,297</u>	<u>246,494</u>	<u>2,438,208</u>
NET ASSETS, END OF YEAR	<u>\$ 1,642,743</u>	<u>\$ 373,052</u>	<u>\$ 326,757</u>	<u>\$ 1,750,728</u>	<u>\$ 396,947</u>	<u>\$ 280,432</u>	<u>\$ 2,428,107</u>