

**LEGAL AID SOCIETY OF
THE DISTRICT OF COLUMBIA
DECEMBER 31, 2011 AND 2010**

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SARFINOANDRHOADES, LLP

J Gregory Sarfino CPA
David R Himes CPA
Michael J Devlin CPA
Brian W Dow CPA

11921 Rockville Pike, Suite 501
North Bethesda, Maryland
20852-2794

Certified Public Accountants
and Business Advisors

301.770.5500 Voice
301.881.7747 Fax
cpas@sarfinoandrhoades.com
www.sarfinoandrhoades.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Legal Aid Society of the District of Columbia
Washington, D.C.

We have audited the accompanying statements of financial position of the Legal Aid Society of the District of Columbia as of December 31, 2011 and 2010 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Legal Aid Society of the District of Columbia as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 on page 15 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 statements 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.

Sarfino and Rhoades, LLP

June 5, 2012

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

	DECEMBER 31,	
	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	\$ 672,281	\$ 214,087
Investments (Notes 1 and 2)	1,778,818	2,277,500
Grants and contributions receivable (Notes 1 and 3)	154,594	114,980
Interest receivable and prepaid expenses	46,368	50,358
TOTAL CURRENT ASSETS	\$ 2,652,061	\$ 2,656,925
PROPERTY AND EQUIPMENT (Notes 1 and 4)	\$ 80,544	\$ 45,363
OTHER ASSETS:		
Capitalized website development costs (Note 1)	\$ -	\$ 295
Deposit	55,273	55,273
TOTAL OTHER ASSETS	\$ 55,273	\$ 55,568
TOTAL ASSETS	\$ 2,787,878	\$ 2,757,856
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 95,732	\$ 61,320
Capital lease obligation, current portion (Note 5)	4,752	9,333
TOTAL CURRENT LIABILITIES	\$ 100,484	\$ 70,653
OTHER LIABILITIES:		
Capital lease obligations, net of current portion (Note 5)	\$ 10,560	\$ 18,818
Deferred lease obligation (Note 6)	248,727	230,177
TOTAL OTHER LIABILITIES	\$ 259,287	\$ 248,995
TOTAL LIABILITIES	\$ 359,771	\$ 319,648
COMMITMENTS (Note 6)		
NET ASSETS (Notes 1, 9 and 10):		
Unrestricted	\$ 1,750,728	\$ 1,879,417
Temporarily restricted	396,947	312,297
Permanently restricted	280,432	246,494
TOTAL NET ASSETS	\$ 2,428,107	\$ 2,438,208
TOTAL LIABILITIES AND NET ASSETS	\$ 2,787,878	\$ 2,757,856

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,

2011

2010

	2011		2010		Total	2010		Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		Unrestricted	Temporarily Restricted	
REVENUE:								
Contributed services (Notes 1 and 8)	\$ 8,133,997	\$ -	\$ -	\$ 8,133,997	\$ 8,825,499	\$ -	\$ -	\$ 8,825,499
Grants and contributions	1,453,920	1,116,764	32,000	2,602,684	1,350,709	996,473	34,237	2,381,419
Special events	725,150	-	-	725,150	745,850	-	-	745,850
In-kind contributions (Note 9)	76,239	-	-	76,239	-	-	-	-
Investment income (Note 1)	58,355	-	14,159	72,514	53,746	2,527	-	56,273
Miscellaneous income	103	-	-	103	180	-	-	180
Refunded grant (Note 1)	-	-	-	-	-	(50,000)	-	(50,000)
Net assets released from restrictions	1,044,335	(1,032,114)	(12,221)	-	1,058,751	(1,046,118)	(12,633)	-
TOTAL REVENUE	\$ 11,492,099	\$ 84,650	\$ 33,938	\$ 11,610,687	\$ 12,034,735	\$ (97,118)	\$ 21,604	\$ 11,959,221
EXPENSES:								
Program services	\$ 10,810,730	\$ -	\$ -	\$ 10,810,730	\$ 11,294,732	\$ -	\$ -	\$ 11,294,732
Fundraising	461,345	-	-	461,345	432,581	-	-	432,581
Management and general	348,713	-	-	348,713	226,811	-	-	226,811
TOTAL EXPENSES	\$ 11,620,788	\$ -	\$ -	\$ 11,620,788	\$ 11,954,124	\$ -	\$ -	\$ 11,954,124
CHANGE IN NET ASSETS	\$ (128,689)	\$ 84,650	\$ 33,938	\$ (10,101)	\$ 80,611	\$ (97,118)	\$ 21,604	\$ 5,097
NET ASSETS, BEGINNING OF YEAR	1,879,417	312,297	246,494	2,438,208	1,798,806	409,415	224,890	2,433,111
NET ASSETS, END OF YEAR	\$ 1,750,728	\$ 396,947	\$ 280,432	\$ 2,428,107	\$ 1,879,417	\$ 312,297	\$ 246,494	\$ 2,438,208

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,

	2011			2010				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Donated services	\$ 8,133,997	\$ -	\$ -	\$ 8,133,997	\$ 8,825,499	\$ -	\$ -	\$ 8,825,499
Salaries	1,789,496	233,127	194,672	2,217,295	1,614,178	148,269	194,310	1,956,757
Occupancy	338,600	44,111	36,835	419,546	335,230	30,792	40,354	406,376
Employee benefits	173,194	22,563	18,841	214,598	161,442	14,829	19,434	195,705
Payroll taxes	137,840	17,957	14,995	170,792	124,978	11,480	15,044	151,502
Professional services	77,906	10,149	34,868	122,923	75,581	6,943	9,098	91,622
Special events	-	-	97,354	97,354	-	-	89,940	89,940
Office supplies and expenses	46,012	5,995	5,005	57,012	39,950	3,670	4,809	48,429
Printing and publications	8,760	1,141	41,594	51,495	8,541	785	32,186	41,512
Miscellaneous	29,915	3,897	3,254	37,066	30,620	2,813	3,686	37,119
Telephone	28,225	3,677	3,071	34,973	33,205	3,050	3,997	40,252
Postage and shipping	12,662	1,650	7,144	21,456	6,221	571	14,993	21,785
Depreciation and amortization	17,248	2,247	1,876	21,371	22,798	2,094	2,745	27,637
Insurance	15,296	1,993	1,664	18,953	14,192	1,304	1,708	17,204
Interest	1,579	206	172	1,957	2,297	211	277	2,785
	<u>\$ 10,810,730</u>	<u>\$ 348,713</u>	<u>\$ 461,345</u>	<u>\$ 11,620,788</u>	<u>\$ 11,294,732</u>	<u>\$ 226,811</u>	<u>\$ 432,581</u>	<u>\$ 11,954,124</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,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (10,101)	\$ 5,097
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	21,371	27,637
Loss on sale of investments	4,911	-
Forgiveness of capital lease	(145)	-
Donated investments	(4,804)	(4,365)
Donated equipment	(49,846)	-
Refunded grant	-	50,000
Change in current assets and liabilities:		
Grants and contributions receivable	(39,614)	(21,612)
Interest receivable and prepaid expenses	3,990	(19,704)
Accounts payable and accrued expenses	34,412	(2,088)
Deferred lease obligation	18,550	27,503
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (21,276)	\$ 62,468
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on maturities and sales of investments	\$ 1,009,905	\$ 1,206,117
Purchases of investments	(511,330)	(1,711,514)
Payments for purchases of property and equipment	(11,903)	(7,901)
Payment of security deposit	-	(1,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ 486,672	\$ (514,298)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	\$ (7,202)	\$ (8,664)
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 458,194	\$ (460,494)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	214,087	674,581
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 672,281	\$ 214,087
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 1,957	\$ 2,785

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, 2011 AND 2010

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 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.

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.

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, 2011 and 2010. 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, 2007 and prior.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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 the purposes of the statement 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. 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.

Capitalized Website Development Costs - Capitalized website development costs are recorded at cost. Amortization is computed using the straight-line method over three years.

Capitalized website development costs consisted of the following as of December 31:

	2011	2010
Website development costs	\$ 11,289	\$ 11,289
Less, Accumulated amortization	11,289	10,994
Net	<u>\$ -</u>	<u>\$ 295</u>

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, are provided by individuals possessing those 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, 2011 AND 2010

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

Refunded Grant - In 2009, the Meyer Foundation awarded Legal Aid's Executive Director with its Exponent Award of \$100,000 to be spent for leadership development over a two year period. When the Executive Director left Legal Aid to join the United States Department of Justice, \$50,000 of the award money which had been previously recognized was refunded. The refund was recorded when the amount became known in 2010.

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.

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.

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.

Note 2. **Fair Value Measurement** - 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.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 2. **Fair Value Measurement** - (Continued)

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 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.

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, 2011:				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 528,916	\$ -	\$ 528,916
Exchange-traded funds	153,712	-	-	153,712
Certificates of deposit	-	910,608	-	910,608
Fixed income mutual funds	66,867	-	-	66,867
Fixed income securities	-	543,353	-	543,353
Equity mutual funds	104,278	-	-	104,278
	\$ 324,858	\$ 1,982,877	\$ -	\$ 2,307,734

Assets at fair value as of December 31, 2010:				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ -	\$ 79,351	\$ -	\$ 79,351
Exchange-traded funds	148,482	-	-	148,482
Certificates of deposit	-	1,381,943	-	1,381,943
Fixed income securities	-	747,075	-	747,075
	\$ 148,482	\$ 2,208,369	\$ -	\$ 2,356,851

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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.

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

	2011	2010
Computer equipment	\$ 131,648	\$ 69,898
Office furniture and equipment	55,877	79,421
Total property and equipment	\$ 187,525	\$ 149,319
Less, accumulated depreciation and amortization	106,981	103,956
Net property and equipment	\$ 80,544	\$ 45,363

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$21,371 and \$27,637, respectively.

Note 5. **Capital Lease** - The Organization has entered into a capital lease agreement for a copier. The obligation is payable through 2014. The net book value of the copiers is \$26,495.

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

Years Ending	Amounts
2012	\$ 6,084
2013	6,084
2014	5,577
Total minimum lease payments	\$ 17,745
Less, amounts representing interest	2,433
Present value of minimum lease payment:	\$ 15,312
Less, current maturities	4,752
Capital lease obligation, net of current portion	\$ 10,560

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 6. **Commitments** - The Organization 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 commitment. The defined escalation clauses and abatement in the lease give rise to a deferred lease obligation, which is being amortized on a straight-line basis over the term of the lease. Total rent expense for the years ended December 31, 2011 and 2010, was \$419,546 and \$406,376, respectively.

The Organization entered into an operating lease for additional space in Southeast D.C. that expires on July 31, 2013. Rent payments are \$1000 per month.

The Organization has an operating lease for a copier. The monthly lease payments are \$177. Total rent expense for the copier for the years ended December 31, 2011 and 2010 was \$8,766 and \$11,512, 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>
2012	\$ 467,979	\$ (40,938)	\$ 2,124	\$ 429,165
2013	529,677	(46,446)	2,124	485,355
2014	536,382	-	2,124	538,506
2015	550,447	-	1,062	551,509
2016	564,886	-	-	564,886
Thereafter	1,527,982	-	-	1,527,982
Total	<u>\$ 4,177,353</u>	<u>\$ (87,384)</u>	<u>\$ 7,434</u>	<u>\$ 4,097,403</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 within in the plan. Participants are eligible to make voluntary contributions to the plan upon employment. According to the plan document, the Organization has provided 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, 2011 and December 31, 2010 was \$38,303 and \$46,088, respectively.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 8. **Donated Services** - For the years ended December 31, 2011 and 2010, the Organization received \$8,133,997 and \$8,825,499, respectively, of in-kind donations that consisted of legal and consulting services.

Note 9. **In-kind Contributions** - 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, as it relates to equipment, or shown in the representative functional expense category the gift relates to.

Note 10. **Restricted Net Assets** - Temporarily restricted net assets were for the following purposes as of December 31:

	<u>2011</u>	<u>2010</u>
Neighborhood Access Project	\$ 149,877	\$ 118,573
Landlord and Tenant Court	101,809	89,070
Child Support Court-Based Legal Services	75,673	-
Public Benefits/Consumer Health Rights	17,862	20,232
Appellate Advocacy Project	17,733	17,125
McDowell Endowment	10,155	8,965
Skadden - Flom Incubator Project	10,000	-
Equal Justice Works Fellowship	6,500	-
Domestic Violence Victims Project	5,000	-
Klepper Endowment	2,338	4,991
Liman Fellowship	-	32,714
Neighbors in Need (foreclosure prevention)	-	20,627
Total	<u>\$ 396,947</u>	<u>\$ 312,297</u>

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

McDowell Endowment	\$ 229,933	\$ 194,100
Klepper Endowment	44,437	46,332
Da Costa V. Mason	<u>6,062</u>	<u>6,062</u>
Total	<u>\$ 280,432</u>	<u>\$ 246,494</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 11. **Endowment** - 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 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 Asset as of December 31, 2011 is as follows:

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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	-	14,159	14,159
Additional required disbursements	(1,463)	(12,221)	(13,684)
Endowment net assets, end of year	<u>\$ 12,493</u>	<u>\$ 280,432</u>	<u>\$ 292,925</u>

Endowment Net Asset as of December 31, 2010 is as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 13,956</u>	<u>\$ 246,494</u>	<u>\$ 260,450</u>

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 2,488	\$ 224,890	\$ 227,378
Contributions	-	34,237	34,237
Investment income	2,527	-	2,527
Additional required disbursements	8,941	(12,633)	(3,692)
Endowment net assets, end of year	<u>\$ 13,956</u>	<u>\$ 246,494</u>	<u>\$ 260,450</u>

Note 12. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 5, 2012, 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,

2011

2010

	2011			2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE:								
Grants and contributions	\$ 1,453,920	\$ 1,116,764	\$ 32,000	\$ 2,602,684	\$ 1,350,709	\$ 996,473	\$ 34,237	\$ 2,381,419
Special events	725,150	-	-	725,150	745,850	-	-	745,850
Investment income	58,355	-	14,159	72,514	53,746	2,527	-	56,273
In-kind contributions	76,239	-	-	76,239	-	-	-	-
Miscellaneous income	103	-	-	103	180	-	-	180
Refunded grant	-	-	-	-	-	(50,000)	-	(50,000)
Net assets released from restrictions	1,044,335	(1,032,114)	(12,221)	-	1,058,751	(1,046,118)	(12,633)	-
TOTAL REVENUE	\$ 3,358,102	\$ 84,650	\$ 33,938	\$ 3,476,690	\$ 3,209,236	\$ (97,118)	\$ 21,604	\$ 3,133,722
EXPENSES:								
Program services	\$ 2,676,733	\$ -	\$ -	\$ 2,676,733	\$ 2,469,233	\$ -	\$ -	\$ 2,469,233
Fundraising	461,345	-	-	461,345	432,581	-	-	432,581
Management and general	348,713	-	-	348,713	226,811	-	-	226,811
TOTAL EXPENSES	\$ 3,486,791	\$ -	\$ -	\$ 3,486,791	\$ 3,128,625	\$ -	\$ -	\$ 3,128,625
CHANGE IN NET ASSETS	\$ (128,689)	\$ 84,650	\$ 33,938	\$ (10,101)	\$ 80,611	\$ (97,118)	\$ 21,604	\$ 5,097
NET ASSETS, BEGINNING OF YEAR	1,879,417	312,297	246,494	2,438,208	1,798,806	409,415	224,890	2,433,111
NET ASSETS, END OF YEAR	\$ 1,750,728	\$ 396,947	\$ 280,432	\$ 2,428,107	\$ 1,879,417	\$ 312,297	\$ 246,494	\$ 2,438,208