

**LEGAL AID SOCIETY OF  
THE DISTRICT OF COLUMBIA  
DECEMBER 31, 2020 AND 2019**

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# SARFINO AND RHOADES, LLP

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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@sarfinoandrhowades.com  
www.sarfinoandrhowades.com

## **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, 2020 and 2019, 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, 2020 and 2019, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Activities (Without Donated Services) for the years ended December 31, 2020 and 2019 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.

*Sapnis and Rhoads, LLP*  
May 5, 2021

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

	DECEMBER 31,	
	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Notes 1, 4 and 13)	\$ 1,063,510	\$ 1,758,665
Investments (Notes 1, 3 and 4)	6,773,723	3,505,381
Grants and contributions receivable (Note 1)	2,803,969	2,741,595
Interest receivable and prepaid expenses	86,824	148,228
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 10,728,026</b>	<b>\$ 8,153,869</b>
<b>PROPERTY AND EQUIPMENT</b> (Notes 1 and 5)	409,013	407,424
<b>OTHER ASSETS:</b>		
Deposits	42,348	42,348
<b>TOTAL ASSETS</b>	<b>\$ 11,179,387</b>	<b>\$ 8,603,641</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 251,741	\$ 187,291
Deferred revenue (Notes 1 and 6)	20,500	81,000
Loan payable - current portion (Note 7)	834,192	-
Deferred lease obligation - current portion (Note 8)	213,685	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 1,320,118</b>	<b>\$ 268,291</b>
<b>NON-CURRENT LIABILITIES:</b>		
Loan payable non-current (Note 7)	\$ 325,508	\$ -
Deferred lease obligation - non-current (Note 8)	965,839	1,053,918
<b>TOTAL LIABILITIES</b>	<b>\$ 2,611,465</b>	<b>\$ 1,322,209</b>
<b>COMMITMENTS</b> (Note 8)		
<b>NET ASSETS</b> (Notes 1, 11 and 12):		
Without donor restrictions	\$ 4,810,736	\$ 4,261,047
With donor restrictions	3,757,186	3,020,385
<b>TOTAL NET ASSETS</b>	<b>\$ 8,567,922</b>	<b>\$ 7,281,432</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,179,387</b>	<b>\$ 8,603,641</b>

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,  
 2020 2019

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total	Total	Total	Total
<b>REVENUE, SUPPORT AND GAINS</b> (Notes 1, 6 and 10):				
Donated services	\$ 20,919,025	\$ -	\$ 20,919,025	\$ -
Grants and contributions	4,146,251	3,778,822	7,925,073	3,040,973
Special events	1,255,656	-	1,255,656	-
Less: direct benefits to donors	-	-	-	(172,364)
Investment income, net	348,685	79,065	427,750	88,306
Legal fees	49,302	-	49,302	-
Miscellaneous income	16,836	-	16,836	-
Event ticket revenue	-	-	-	115,255
In-kind contributions	-	-	-	1,555
Net assets released from restrictions	3,121,086	(3,121,086)	-	(3,056,984)
<b>TOTAL REVENUE, SUPPORT AND GAINS</b>	<u>\$ 29,856,841</u>	<u>\$ 736,801</u>	<u>\$ 30,593,642</u>	<u>\$ 37,183,124</u>
			\$ 37,183,124	\$ 72,295
			<u>\$ 37,183,124</u>	<u>\$ 72,295</u>
<b>EXPENSES:</b>				
Program service	\$ 27,866,477	\$ -	\$ 27,866,477	\$ -
Management and general	768,793	-	768,793	-
Fundraising	671,882	-	671,882	-
<b>TOTAL EXPENSES</b>	<u>\$ 29,307,152</u>	<u>\$ -</u>	<u>\$ 29,307,152</u>	<u>\$ 36,477,661</u>
			\$ 36,477,661	\$ -
			<u>\$ 36,477,661</u>	<u>\$ -</u>
<b>CHANGES IN NET ASSETS</b>	\$ 549,689	\$ 736,801	\$ 1,286,490	\$ 72,295
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,261,047</u>	<u>3,020,385</u>	<u>7,281,432</u>	<u>2,948,090</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 4,810,736</u>	<u>\$ 3,757,186</u>	<u>\$ 8,567,922</u>	<u>\$ 3,020,385</u>
			\$ 4,261,047	\$ 3,020,385
			<u>\$ 4,261,047</u>	<u>\$ 3,020,385</u>
			\$ 705,463	\$ 777,758
			<u>\$ 705,463</u>	<u>\$ 777,758</u>
			\$ 35,147,458	\$ -
			<u>\$ 35,147,458</u>	<u>\$ -</u>
			653,045	-
			<u>653,045</u>	<u>-</u>
			677,158	-
			<u>677,158</u>	<u>-</u>
			\$ 36,477,661	\$ -
			<u>\$ 36,477,661</u>	<u>\$ -</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,

2020

2019

	Supporting Services				Supporting Services					
	Program Service	Management and General	Fundraising	Direct Benefits to Donors	Total	Program Service	Fundraising	Management and General	Direct Benefits to Donors	Total
Donated services (Note 10)	\$ 20,919,025	-	-	-	\$ 20,919,025	\$ 28,881,923	-	-	-	\$ 28,881,923
Salaries	5,029,132	515,721	418,090	-	5,962,943	4,396,947	379,961	416,668	-	5,193,576
Employee benefits	632,150	64,825	52,553	-	749,528	533,266	46,082	50,534	-	629,882
Occupancy (Note 8)	628,071	64,002	51,886	-	743,959	680,717	58,564	64,223	-	803,504
Payroll taxes	332,754	34,123	27,663	-	394,540	348,966	30,156	33,069	-	412,191
Technology and internet	78,076	8,005	24,138	-	110,219	49,017	29,534	4,645	-	83,196
Depreciation and amortization (Note 5)	75,786	7,773	6,300	-	89,859	51,887	4,484	4,917	-	61,288
Office supplies and expenses	67,077	5,662	4,712	-	77,451	68,594	6,405	4,326	-	79,325
Bank and credit card fees	-	3,976	67,747	-	71,723	-	53,957	5,411	-	59,368
Professional services	-	50,152	-	-	50,152	-	-	45,269	-	45,269
Telephone	35,881	2,313	1,875	-	40,069	39,183	3,008	3,299	-	45,490
Insurance	28,586	5,982	-	-	34,568	26,839	-	3,288	-	30,127
Dues and subscriptions	22,525	1,483	1,580	-	25,588	24,118	-	1,832	-	25,950
Special events	-	-	14,959	-	14,959	-	23,127	-	172,364	195,491
Miscellaneous expenses	8,682	368	-	-	9,050	-	-	2,507	-	2,507
Training	4,733	-	109	-	4,842	12,735	-	-	-	12,735
Printing and publications	3,866	333	270	-	4,469	3,405	38,763	286	-	42,454
Postage and shipping	133	4,025	-	-	4,158	239	1,650	11,163	-	13,052
Taxes - other	-	50	-	-	50	16,973	1,467	1,608	-	20,048
Other program expenses	-	-	-	-	-	12,649	-	-	-	12,649
<b>TOTAL EXPENSES</b>	\$ 27,866,477	\$ 768,793	\$ 671,882	\$ -	\$ 29,307,152	\$ 35,147,458	\$ 677,158	\$ 653,045	\$ 172,364	\$ 36,650,025
Less, Direct Benefits to Donors	-	-	-	-	-	-	-	-	(172,364)	(172,364)
<b>STATEMENTS OF ACTIVITIES</b>	\$ 27,866,477	\$ 768,793	\$ 671,882	\$ -	\$ 29,307,152	\$ 35,147,458	\$ 677,158	\$ 653,045	\$ -	\$ 36,477,661

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,	
	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,286,490	\$ 777,758
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	89,859	61,288
Net realized and unrealized gains on investments	(349,525)	(146,828)
Donated securities recorded as revenue	(150,905)	(219,599)
Donated furniture and equipment recorded as revenue	-	(1,555)
Change in operating assets and liabilities:		
Increase in grants and contributions receivable	(62,374)	(522,945)
Decrease (increase) in interest receivable and prepaid expenses	61,404	(6,236)
Increase in accounts payable and accrued expenses	64,450	21,937
Decrease in deferred revenue	(60,500)	(4,000)
Increase (decrease) in deferred lease obligation	125,606	247,983
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,004,505</u>	<u>\$ 207,803</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investments	\$ 412,804	\$ 478,341
Purchases of investments	(3,180,717)	(660,942)
Payments for purchases of property and equipment	(91,447)	(86,010)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>\$ (2,859,360)</u>	<u>\$ (268,611)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from paycheck protection program loan	\$ 1,159,700	\$ -
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	\$ (695,155)	\$ (60,808)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,758,665</u>	<u>1,819,473</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,063,510</u>	<u>\$ 1,758,665</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash investing activity:		
Asset acquisition through tenant improvement allowance	\$ -	\$ 157,623

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, 2020 AND 2019**

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

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

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

**Basis of Accounting** - The financial statements of the Organization have been prepared on the accrual basis of accounting.

**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, 2020 AND 2019**

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.

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

**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, 2020 and 2019. Management expects the amounts to be received in full within the coming year.

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

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

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred, in the amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods and services. Revenue from contracts with customers is reported as event ticket revenue in the statements of activities. The performance obligations are satisfied at a point in time when the event occurs. The event scheduled for May 2020 was cancelled due to COVID-19. All revenue from the event was considered earned in 2020 since the Organization was released from fulfilling the performance obligation due to COVID-19 restrictions.

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

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

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

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

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

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

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

Note 2. **Liquidity and Availability** -The following represents the Organization’s financial assets at December 31:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,063,510	\$ 1,758,665
Investments	6,773,723	3,505,381
Grants and contributions receivable	2,803,969	2,741,595
Interest receivable	4,857	4,857
Total financial assets	\$10,646,059	\$ 8,010,498
Less, amounts with restrictions:		
Restricted by donors for purposes	2,840,852	2,251,245
Investments restricted by donors for endowments in perpetuity	916,334	769,140
Financial assets available to meet general expenditures over the next twelve months	\$ 6,888,873	\$ 4,990,113

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

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 2. **Liquidity and Availability** - (Continued)

- 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 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 3. **Investments** - The aggregate fair values of investments as of December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Exchange-Traded Funds	\$ 5,339,465	\$ 2,791,542
Fixed income securities	963,007	688,241
Common stocks	471,251	25,598
Totals	\$ 6,773,723	\$ 3,505,381

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 3. **Investments** - (Continued)

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 82,098	\$ 138,259
Investment fees	(3,873)	(3,628)
Realized gains (losses) on investments	2,597	(32,949)
Unrealized gains on investments	<u>346,928</u>	<u>181,336</u>
	<u>\$ 427,750</u>	<u>\$ 283,018</u>

Note 4. **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.

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.

**LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 4. **Fair Value Measurements** - (Continued)

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 215,917	\$ -	\$ 215,917
Fixed-income securities	963,007	-	-	963,007
Exchange-traded funds	5,339,465	-	-	5,339,465
Common stock	471,251	-	-	471,251
Totals	<u>\$ 6,773,723</u>	<u>\$ 215,917</u>	<u>\$ -</u>	<u>\$ 6,989,640</u>
Less: Amount included in cash				<u>(215,917)</u>
Total investments				<u>\$ 6,773,723</u>

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

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

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Note 5. **Property and Equipment** - Property and equipment consists of the following as of December 31:

	2020	2019
Leasehold improvements	\$ 443,857	\$ 443,857
Computer equipment	313,018	221,571
Office furniture and equipment	66,822	66,822
Website	11,289	11,289
Total property and equipment	\$ 834,986	\$ 743,539
Less, accumulated depreciation and amortization	425,973	336,115
Net property and equipment	\$ 409,013	\$ 407,424

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$89,859 and \$61,288, respectively.

Note 6. **Revenue Recognition**

Disaggregation of Revenue

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

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

	2020	2019
Recognized at a point in time	\$ -	\$ 115,255
Recognized over time	-	-
Total	\$ -	\$ 115,255

Contract Balances

There were no contract assets or liabilities relating to event ticket sales at December 31, 2020.

Performance Obligations

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

Significant Judgements

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



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Note 7. **Paycheck Protection Program Loan** - On May 8, 2020, the Organization (the “Borrower”), received a loan (the “Loan”) from Truist Bank in the amount of \$1,159,700 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for an amount up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP, the loan may be forgiven if the proceeds are used for qualifying expenses as described in the CARES Act, while maintaining payroll levels. Qualifying expenses include payroll, benefits, rent and utilities.

The Small Business Administration (SBA) granted Borrowers a deferral of loan payments until ten months after the end of the loan forgiveness covered period or until the SBA approved a full or partial loan forgiveness and notifies the lender. Any portion of the PPP loan not forgiven will mature on May 8, 2022 and bears interest at a rate of 1% per annum. The Organization intends to use the entire Loan amount for qualifying expenses. The Small Business Administration (SBA) granted Borrowers a deferral of loan payments until ten months after the end of the loan forgiveness covered period or until the SBA approved a partial loan forgiveness and notified the lender. The Note may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties.

Future minimum payments under the Loan are as follows for the years ending December 31:

2021	\$ 834,192
2022	<u>325,508</u>
Total	<u><u>\$ 1,159,700</u></u>

Note 8. **Commitments** - The Organization amended their office lease to acquire additional office space under a lease term that expires in September 2027. The lease agreement includes escalation clauses relating to increases in the consumer price index, real estate taxes and operating costs, as well as clauses calling for the abatement of a portion of the rent commitment and an allowance for leasehold improvements. This arrangement gives rise to a deferred lease obligation which is being amortized over the term of the lease. The deferred lease obligation as of December 31, 2020 and 2019 was \$1,179,524 and \$1,053,918, 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 November 30, 2025. Total office rent expense for the years ended December 31, 2020 and 2019 was \$743,959 and \$803,504, respectively.

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

During 2017, the Organization entered into a non-cancelable operating lease for copier that expires in September 2022. Monthly rental payments on the copier is \$651. During 2019, the Organization entered into a three-year non-cancelable operating lease for the use of Sky Data Vault software that expires in May 2023. Monthly rental payments on the software is \$800. Total operating lease expense for the years ended December 31, 2020 and 2019 was \$48,890 and \$43,060, respectively.

Future minimum lease payments are as follows:

Years Ending December 31,	Office Leases	Equipment	Total
2021	\$ 813,532	\$ 17,408	\$ 830,940
2022	844,028	14,805	858,833
2023	873,452	4,000	877,452
2024	903,886	-	903,886
2025	933,065	-	933,065
Thereafter	1,689,261	-	1,689,261
Total	<u>\$ 6,057,224</u>	<u>\$ 36,213</u>	<u>\$ 6,093,437</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 9. **Retirement Plan** - The Organization maintains a contributory 401(k) retirement plan (the "Plan") for employees meeting certain eligibility requirements, as outlined in the Plan. Participants are eligible to make voluntary contributions to the Plan upon their initial day of employment. The Organization provides for a discretionary match based on each participant's compensation. The Organization's contribution to the Plan for the years ended December 31, 2020 and 2019 was \$143,855 and \$112,963, respectively.

Note 10. **Donated Goods and Services** - For the years ended December 31, 2020 and 2019, the Organization received \$20,919,025 and \$28,881,923, respectively, of donated services that consisted of legal and consulting services to support its program services. Donated services are recorded at the amount reported by the contributing organization and are typically based on that organization's standard hourly billing rates. The Organization also received donated furniture and equipment valued at \$1,555 for the year ended December 31, 2019. Donated furniture and equipment are reported as in-kind contributions on the statements of activities.

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

	2020	2019
Subject to expenditure for specific purpose:		
Civil Legal Counsel Projects	\$ 1,100,000	\$ 1,095,000
Amazon Foreclosure Prevention	500,000	-
Neighborhood Access Project	385,000	385,000
Housing Justice Advocacy	165,000	161,000
Child Support Court-Based Legal Services	155,000	155,000
Domestic Violence Victims Project	130,000	125,000
Immigration Rights Legal Services Project	100,000	74,718
Consumer Law	70,000	70,000
Foreclosure Prevention Project	70,000	68,000
Sidley Austin Fellow	51,262	58,521
Skadden Fellow	36,318	10,173
Yale Fellowship	28,034	-
McDowell Endowment	27,263	26,128
Appellate Advocacy Project	20,000	20,000
Klepper Endowment	2,975	2,705
Total	<u>\$ 2,840,852</u>	<u>\$ 2,251,245</u>
In perpetuity for endowments:		
McDowell Endowment	\$ 565,737	\$ 530,575
Making Justice Real	288,019	181,109
Klepper Endowment	56,516	51,394
Da Costa V. Mason	6,062	6,062
Total	<u>\$ 916,334</u>	<u>\$ 769,140</u>
Total net assets with donor restrictions	<u>\$ 3,757,186</u>	<u>\$ 3,020,385</u>

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

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

Endowment net assets as of December 31, 2020 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 30,238</u>	<u>\$ 916,334</u>	<u>\$ 946,572</u>

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Note 12. **Endowments** - (Continued)

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 28,833	\$ 769,140	\$ 797,973
Contributions	-	98,367	98,367
Investment income	-	79,065	79,065
Endowment funds disbursed	(28,833)	-	(28,833)
Appropriated for expenditure	30,238	(30,238)	-
Endowment net assets, end of year	<u>\$ 30,238</u>	<u>\$ 916,334</u>	<u>\$ 946,572</u>

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

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

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

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

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- Note 13. **Concentration of Credit Risk** - Financial instruments which potentially subject the Organization to concentrations of credit risk include cash deposits with investment advisors, as well as deposits with financial institutions which, at times during the year, may exceed the limit of insurance coverage by the Federal Deposit Insurance Corporation (FDIC). The Organization attempts to minimize this risk by maintaining deposits at institutions it assesses as high quality. At December 31, 2020, the Organization's uninsured cash balances total \$719,559.
- Note 14. **Reclassifications** - Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation.
- Note 15. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 5, 2021, which is the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

