

VIRGINIA LEGAL AID SOCIETY, INC.

Financial Statements

For the Year Ended June 30, 2013



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COLEY, EUBANK & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORTS

To the Board of Directors of
Virginia Legal Aid Society, Inc.

Report on the Financial Statements

Identification of Audited Financial Statements

We have audited the accompanying financial statements of Virginia Legal Aid Society, Inc. (the "Society"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows, and functional expenses for the year 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 the aforementioned financial statements in accordance with accounting principles generally accepted in the United States of America, which 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the aforementioned financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's 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 auditor considers 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.

continued

INDEPENDENT AUDITOR'S REPORTS, continued

Opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Society, as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Society's financial statements as of and for the year ended June 30, 2012, and our report dated October 17, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it was derived.

Coley, Eubank & Company, P.C.

Lynchburg, Virginia
October 25, 2013



VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Financial Position
June 30, 2013
With Comparative Totals for June 30, 2012

Assets	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 898,370	\$ 810,169
Cash in escrow, client deposits	7,596	10,201
Investments, certificates of deposit	225,000	225,000
Contributions receivable	177,739	165,278
Grants receivable	16,445	15,549
Other receivables	5,306	3,768
Prepaid expenses	<u>40,721</u>	<u>19,672</u>
Total current assets	<u>1,371,177</u>	<u>1,249,637</u>
Property and equipment		
Land, buildings, furniture, and equipment	1,190,716	1,194,143
Less accumulated depreciation	<u>468,011</u>	<u>427,812</u>
Net property and equipment	<u>722,705</u>	<u>766,331</u>
Other assets		
Beneficial interest in net assets of Greater Lynchburg Community Trust	<u>7,083</u>	<u>6,261</u>
Total assets	<u>\$ 2,100,965</u>	<u>\$ 2,022,229</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 16,137	\$ 20,400
Accrued payroll	60,602	63,396
Accrued vacation	50,868	55,515
Unearned revenue	4,346	6,519
Current maturities of long-term liabilities	21,521	20,135
Client trust deposits	<u>7,596</u>	<u>10,201</u>
Total current liabilities	161,070	176,166
Long-term liabilities		
Notes payable, net of current portion	<u>144,614</u>	<u>166,131</u>
Total liabilities	<u>305,684</u>	<u>342,297</u>
Net assets		
Unrestricted	<u>1,532,408</u>	<u>1,438,591</u>
Temporarily restricted:		
Legal Services Corporation	69,394	69,061
Other	<u>193,479</u>	<u>172,280</u>
Total net assets	<u>1,795,281</u>	<u>1,679,932</u>
Total liabilities and net assets	<u>\$ 2,100,965</u>	<u>\$ 2,022,229</u>

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

VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Activities
Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 796,900	\$ 333	\$ 797,233	\$ 850,490
Other grants	1,553,201	72,885	1,626,086	1,641,551
United Way	9,598	110,680	120,278	93,248
Contributions	87,970	-	87,970	108,013
Interest	5,324	-	5,324	8,834
Other	36,693	-	36,693	50,235
In-kind support	102,146	-	102,146	112,225
Total	<u>2,591,832</u>	<u>183,898</u>	<u>2,775,730</u>	<u>2,864,596</u>
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>162,366</u>	<u>(162,366)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,754,198</u>	<u>21,532</u>	<u>2,775,730</u>	<u>2,864,596</u>
Expenses				
Program services				
Legal assistance	2,104,957	-	2,104,957	2,326,761
Supporting services				
Management and general	412,917	-	412,917	465,786
Fund raising	<u>142,507</u>	<u>-</u>	<u>142,507</u>	<u>143,019</u>
Total expenses	<u>2,660,381</u>	<u>-</u>	<u>2,660,381</u>	<u>2,935,566</u>
Change in net assets	93,817	21,532	115,349	(70,970)
Net assets at beginning of year	<u>1,438,591</u>	<u>241,341</u>	<u>1,679,932</u>	<u>1,750,902</u>
Net assets at end of year	<u>\$ 1,532,408</u>	<u>\$ 262,873</u>	<u>\$ 1,795,281</u>	<u>\$ 1,679,932</u>

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

VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Cash Flows
Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 115,349	\$ (70,970)
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	43,625	44,321
Loss on disposal of assets	-	1,007
Unrealized loss (gain) on beneficial interest	(821)	428
(Increase) decrease in grants and other receivables	(2,434)	1,314
Increase in contributions receivable	(12,461)	(45,461)
Increase in prepaid expenses	(21,049)	(10,246)
(Decrease) increase in accounts payable	(4,263)	7,422
Decrease in accrued payroll	(2,794)	(867)
Decrease in accrued vacation	(4,647)	(7,892)
Decrease in unearned revenue	<u>(2,173)</u>	<u>(2,172)</u>
Net cash provided by (used in) operating activities	<u>108,332</u>	<u>(83,116)</u>
Cash flows from investing activities		
Purchases of investments, certificates of deposits	-	(125,000)
Purchases of property and equipment	<u>-</u>	<u>(16,955)</u>
Net cash used in investing activities	<u>-</u>	<u>(141,955)</u>
Cash flows from financing activities		
Payments on notes payable	<u>(20,131)</u>	<u>(18,802)</u>
Net cash used in financing activities	<u>(20,131)</u>	<u>(18,802)</u>
Net increase (decrease) in cash and cash equivalents	88,201	(243,873)
Cash and cash equivalents, beginning of year	<u>810,169</u>	<u>1,054,042</u>
Cash and cash equivalents, end of year	<u>\$ 898,370</u>	<u>\$ 810,169</u>

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

VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Functional Expenses
Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012

	2013											2012 Total Expenses	
	Program								Total Program Expenses	Management and General	Fund Raising		Total Expenses
Legal Services Corporation	Elderly Services	Legal Services Corporation of Virginia	United Way	Local Government Funding	Other Grants	Property and Equipment	General						
Lawyers' salaries	\$ 237,857	\$ 20,401	\$ 340,368	\$ 44,908	\$ 17,621	\$ 93,200	\$ -	\$ 1,924	\$ 756,279	\$ 104,161	\$ 5,040	\$ 865,480	\$ 1,037,553
Non-lawyer salaries	160,710	24,222	220,669	15,315	16,412	63,793	-	1,792	502,913	166,440	92,211	761,564	853,222
Employee benefits	150,902	8,208	214,621	14,399	11,515	31,375	-	1,258	432,278	69,986	18,313	520,577	467,685
Contract services	4,142	-	5,281	603	620	600	-	68	11,314	14,772	-	26,086	57,015
Travel	4,143	-	6,149	745	493	2,477	-	2,309	16,316	6,395	2,255	24,966	32,207
Office	-	-	62,015	11,592	2,760	42,189	-	24,488	143,044	16,957	24,187	184,188	188,344
Library maintenance	10,535	-	20,224	981	933	1,900	-	102	34,675	2,180	-	36,855	39,901
Telephone	13,989	-	20,892	1,216	997	850	-	610	38,554	2,998	501	42,053	50,799
Training	3,334	-	2,734	461	432	2,284	-	47	9,292	11,810	-	21,102	19,543
Insurance	1,535	-	2,148	112	137	750	-	15	4,697	1,677	-	6,374	6,167
Litigation	270	-	392	523	17	450	-	2	1,654	-	-	1,654	8,770
In-kind expenditures	102,146	-	-	-	-	-	-	-	102,146	-	-	102,146	112,225
Miscellaneous	-	-	4,258	414	-	3,498	-	-	8,170	15,541	-	23,711	16,807
Loss on disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	1,007
Depreciation	-	-	-	-	-	-	43,625	-	43,625	-	-	43,625	44,321
Total expenses	\$ 689,563	\$ 52,831	\$ 899,751	\$ 91,269	\$ 51,937	\$ 243,366	\$ 43,625	\$ 32,615	\$ 2,104,957	\$ 412,917	\$ 142,507	\$ 2,660,381	\$ 2,935,566

The accompanying notes are an integral part of the financial statements

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements
June 30, 2013

Note 1 - Summary of significant accounting policies

Nature of activities

Virginia Legal Aid Society, Inc. (the "Society") is a nonprofit corporation organized for the purpose of providing legal assistance in non-criminal proceedings to persons in various locations of Virginia who are financially unable to afford legal assistance. The Society has offices in Danville, Farmville, Suffolk, and Lynchburg. The Society services individuals in these cities and surrounding counties. The Society is funded primarily by grants from the Legal Services Corporation (LSC), a nonprofit organization established by the U.S. Congress to administer a nationwide legal assistance program, and the Legal Services Corporation of Virginia (LSCV), a nonprofit organization at the state level.

Promises to give and restrictions

Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Promises to give are presented at the amounts expected to be collected, which are estimated to approximate fair value. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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. Conditional promises to give are recognized in the period when the conditions on which they depend are substantially met. The awarding of LSC funds is considered a conditional promise to give because LSC awards such funds subject to the availability of federal funding.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under these generally accepted accounting principles, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At the present time, the Society does not have any permanently restricted net assets.

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information should be read in conjunction with the Society's financial statements as of and for the year ended June 30, 2012, from which the summarized information was derived.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash equivalents

For purposes of the statement of cash flows, the Society considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2013

Note 1 - Summary of significant accounting policies (continued)

Investments, certificates of deposit

The Society occasionally invests in certificates of deposit issued by local banks which are valued and presented in the accompanying statement of financial position at the principal amounts expected to be realized upon maturity.

Property and equipment

Purchased property and equipment are recorded at cost. Property and equipment donated to the Society are recorded at their estimated fair market value at the time of the donation. The Society's policy is to capitalize property and equipment acquisitions if their cost is \$5,000 or more; otherwise, the purchases are expensed during the current period. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. LSC claims a reversionary interest in the property and equipment purchased with LSC funds. In addition, LSC claims the right to determine the use of any proceeds from the sale of assets purchased with these funds.

Grant support

The Society recognizes grant funds from LSC as received. A receivable is recognized to the extent costs have been incurred under the grants and not reimbursed. In accordance with the terms of its contract with LSC, the Society may use unexpended funds in future periods to the extent that expenses incurred are in compliance with the specified terms of the contract. LSC may, at its discretion, request reimbursement or return of funds, or both, as a result of noncompliance by the Society with the terms of its contract.

Allocation of expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income taxes

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for federal or state income taxes has been made. In addition, the Society has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Note 2 - Other revenue

Unrestricted other revenue, amounting to \$36,693, for the year ended June 30, 2013, primarily represented income arising from fundraising events, litigation, and miscellaneous income amounting to \$31,370, \$3,150, and \$2,173, respectively.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2013

Note 3 - In-kind support

Donated services for the year ended June 30, 2013, are summarized as follows:

Pro bono program	<u>\$ 102,146</u>
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A Pro Bono Program has been instituted in all the Society's offices and is valued at the participating attorneys' hourly rates times the hours contributed. All donated services are recognized as support and expenses in the accompanying financial statements.

Note 4 - Private attorney involvement (PAI)

LSC regulations require that at least 12.5% of the basic LSC grant be allocated to private attorney involvement. The calculated private attorney involvement (PAI) allocation, as compared with the PAI expenses for the year ended June 30, 2013, is as follows:

Basic LSC Grant	<u>\$ 797,233</u>
12.5% PAI spending requirement	<u>\$ 99,655</u>
Private attorney involvement expenses	<u>\$ 128,798</u>

Note 5 - Cash and cash equivalents

At June 30, 2013, cash and cash equivalents amounted to \$898,370, and included money market funds amounting to \$340,123.

Note 6 - Concentration of credit risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash, cash equivalents, certificates of deposit, and unsecured receivables. Cash and cash equivalents and certificates of deposit are maintained in several financial institutions in Central Virginia. Total deposits at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2013, deposits amounting to \$567,162 were not secured by the FDIC, but management believes there are no significant credit risks regarding these deposits. The unsecured contributions and grants receivables are due primarily from United Way agencies, private foundations, local governments, and individuals. Approximately 51% and 19% of contributions and grants receivable at June 30, 2013, are due from two United Way agencies and one private foundation, respectively. Management believes there are no significant credit risks regarding these receivables as of June 30, 2013.

Note 7 - Supplemental cash flow information

Interest expensed and paid during the year ended June 30, 2013, amounted to \$11,841.

Note 8 - Retirement plan

The Society has a voluntary tax deferred annuity plan for all qualified employees. The Society's contributions to the plan during the year ended June 30, 2013, amounted to \$31,263.

continued

VIRGINIA LEGAL AID SOCIETY, INC.

Notes to Financial Statements, continued

June 30, 2013

Note 9 - Temporarily restricted and designated net assets

LSC considers its funding as temporarily restricted until such time as the funding is utilized for those purposes as permitted by LSC's regulations and awarding contract. As of June 30, 2013, the portion of the Society's temporarily restricted net assets attributable to LSC funding amounted to \$69,394. Other temporarily restricted net assets consist of amounts restricted for operating use by the Society for the year ending June 30, 2014, for the *Health, Education, Advocacy & Law, Mentoring, Financial Freedom, Housing Improvement & Preservation, Crisis & Income Protection, and Strengthening Families with Children* programs and for specific equipment. At June 30, 2013, these other temporarily restricted net assets amounted to \$193,479.

During the current year ended June 30, 2013, net assets were released from donor restrictions by satisfying the time and use restrictions specified by the donors in the amount of \$162,366.

The Society's Board of Directors has designated unrestricted net assets amounting to \$27,987 for building improvements and emergency repairs.

Note 10 - Leases

The Society rents office space for some of its branch offices and office equipment under various lease arrangements. During the year ended June 30, 2013, rental expense was \$16,018 and \$3,140 for office space and equipment, respectively, and is included in office expense in the accompanying statement of functional expenses. Minimum commitments for primarily office equipment operating leases at June 30, 2013, are as follows:

Year Ending <u>June 30</u>	
2014	\$ 3,810
2015	<u>765</u>
	<u>\$ 4,575</u>

Note 11 - LSC net assets requirements

LSC regulations require that the net assets of the basic LSC grant not exceed 10% of the current year's basic LSC grant. The Society's calculation of this requirement is as follows:

LSC annualized grants	\$ 797,233
Income derived from LSC grant	<u>5,324</u>
Total LSC support	<u>\$ 802,557</u>
Allowable net assets (10%)	<u>\$ 80,256</u>
LSC net assets	<u>\$ 69,394</u>

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2013

Note 12 – Beneficial interest in net assets of Greater Lynchburg Community Trust

During the year ended June 30, 2004, the Society made a transfer of \$5,000 to an endowment fund (the “Fund”) maintained by the Greater Lynchburg Community Trust (the “GLCT”). Under the terms of the Society’s agreement with GLCT, the transfer is irrevocable and GLCT will, upon the Society’s request, make annual distributions of the income earned by the Fund. In addition, the Society has granted GLCT variance power, i.e. the right to redirect, consistent with GLCT’s rules and regulations, the benefits of the transferred amounts.

During the year ended June 30, 2013, the Society recognized a net realized and unrealized gain, amounting to \$821, on its beneficial interest.

In addition to the Society, others may make contributions to the Fund. In accordance with U.S. generally accepted accounting principles, the Society will recognize contribution income from this portion of the Fund when received.

The beneficial interest is presented in the accompanying statement of financial position at the fair value of the assets in which the Fund is invested. These fair values are based primarily on quoted market prices.

Note 13 – Subsequent events

Management has evaluated subsequent events for the period July 1, 2013 through October 25, 2013, the date on which these financial statements were available to be issued.

Note 14 – Property and equipment

Property and equipment as of June 30, 2013 and 2012, are as follows:

	June 30, 2013		June 30, 2012	
	Acquisition Value	Accumulated Depreciation	Acquisition Value	Accumulated Depreciation
Furniture and fixtures - donated	\$ 4,318	\$ -	\$ 4,318	\$ -
Furniture and fixtures	28,145	28,133	28,145	28,133
Equipment	173,234	147,082	176,661	138,679
Buildings and leasehold improvements	899,004	292,796	899,004	261,000
Land	<u>86,015</u>	<u>-</u>	<u>86,015</u>	<u>-</u>
	<u>\$1,190,716</u>	<u>\$ 468,011</u>	<u>\$1,194,143</u>	<u>\$ 427,812</u>

As stated in Note 1, LSC claims a reversionary interest in the Society’s property and equipment that were purchased with LSC funds. As of June 30, 2013, the property and equipment in which LSC claims a reversionary interest had a total acquisition value and accumulated depreciation of \$114,757 and \$98,093, respectively.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2013

Note 15 – Long-term liabilities

At June 30, 2013, long-term liabilities consisted of the following:

Note payable to bank, payable \$2,664 monthly, including interest at 6.58%, collateralized by real property, due 2019	\$ 166,135
Less current maturities	<u>21,521</u>
	<u>\$ 144,614</u>

Principal payments on the note payable are scheduled as follows:

Year ending June 30, 2014	\$ 21,521
Year ending June 30, 2015	23,001
Year ending June 30, 2016	24,504
Year ending June 30, 2017	26,273
Year ending June 30, 2018	28,080
Years ending thereafter	<u>42,756</u>
	<u>\$ 166,135</u>

Note 16 – Conditional promise to give

As indicated in Note 1, the awarding of LSC funding is considered a conditional promise to give. As of June 30, 2013, uncollected amounts on LSC's 2013 calendar year award amounted to approximately \$325,000.

Note 17 – Information returns

As an organization exempt from income taxes, the Society is required to file an annual information return with the Internal Revenue Service (the "IRS"). Generally, the IRS has three years in which to select such returns for examination. Although the Society has not been notified that any of its information returns have been selected for examination, its years ended June 30, 2010, 2011, 2012, and 2013 remain subject to such examination.