

**VIRGINIA LEGAL AID SOCIETY, INC.**

Financial Statements

For the Year Ended June 30, 2014



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## **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, 2014, 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. Some of the audit procedures performed are required by U.S. generally accepted auditing standards, while others depend on the auditor's judgment. The procedures performed include 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.

#### **Opinion**

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Society, as of June 30, 2014, 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.

continued

**INDEPENDENT AUDITOR'S REPORTS**, continued

**Report on Summarized Comparative Information**

We have previously audited the Society's financial statements as of and for the year ended June 30, 2013, and our report dated October 25, 2013, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it was derived.

*Coley, Eubank & Company, P.C.*

Lynchburg, Virginia  
September 29, 2014



**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Statement of Financial Position**  
**June 30, 2014**  
**With Comparative Totals for June 30, 2013**

<b>Assets</b>	<u>2014</u>	<u>2013</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 442,555	\$ 898,370
Cash in escrow, client deposits	11,433	7,596
Investments, certificates of deposit	675,000	225,000
Contributions receivable	112,262	177,739
Grants receivable	31,239	16,445
Other receivables	3,360	5,306
Prepaid expenses	<u>45,245</u>	<u>40,721</u>
<b>Total current assets</b>	<u>1,321,094</u>	<u>1,371,177</u>
<b>Property and equipment</b>		
Land, buildings, furniture, and equipment	1,187,541	1,190,716
Less accumulated depreciation	<u>503,635</u>	<u>468,011</u>
<b>Net property and equipment</b>	<u>683,906</u>	<u>722,705</u>
<b>Other assets</b>		
Beneficial interest in net assets of Greater Lynchburg Community Trust	<u>7,813</u>	<u>7,083</u>
<b>Total assets</b>	<u>\$2,012,813</u>	<u>\$2,100,965</u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 11,391	\$ 16,137
Accrued payroll	73,418	60,602
Accrued vacation	59,924	50,868
Unearned revenue	2,173	4,346
Current maturities of long-term liabilities	23,001	21,521
Client trust deposits	<u>11,433</u>	<u>7,596</u>
<b>Total current liabilities</b>	181,340	161,070
<b>Long-term liabilities</b>		
Notes payable, net of current portion	<u>121,618</u>	<u>144,614</u>
<b>Total liabilities</b>	<u>302,958</u>	<u>305,684</u>
<b>Net assets</b>		
Unrestricted	<u>1,510,551</u>	<u>1,532,408</u>
Temporarily restricted:		
Legal Services Corporation	67,342	69,394
Other	<u>131,962</u>	<u>193,479</u>
	<u>199,304</u>	<u>262,873</u>
<b>Total net assets</b>	<u>1,709,855</u>	<u>1,795,281</u>
<b>Total liabilities and net assets</b>	<u>\$2,012,813</u>	<u>\$2,100,965</u>

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

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2014**  
**With Comparative Totals for the Year Ended June 30, 2013**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and revenue</b>				
Federal grants	\$ 876,624	\$ -	\$ 876,624	\$ 797,233
Other grants	1,526,610	37,991	1,564,601	1,626,086
United Way	9,370	91,607	100,977	120,278
Contributions	57,156	-	57,156	87,970
Interest	11,043	-	11,043	5,324
Other	17,462	-	17,462	36,693
In-kind support	110,214	-	110,214	102,146
Total	2,608,479	129,598	2,738,077	2,775,730
Net assets released from restrictions				
Expiration of time or purpose restrictions	193,167	(193,167)	-	-
<b>Total support and revenue</b>	<b>2,801,646</b>	<b>(63,569)</b>	<b>2,738,077</b>	<b>2,775,730</b>
<b>Expenses</b>				
Program services				
Legal assistance	2,204,423	-	2,204,423	2,104,957
Healthcare Exchange assistance	70,244	-	70,244	-
Supporting services				
Management and general	412,632	-	412,632	412,917
Fund raising	136,204	-	136,204	142,507
<b>Total expenses</b>	<b>2,823,503</b>	<b>-</b>	<b>2,823,503</b>	<b>2,660,381</b>
<b>Change in net assets</b>	<b>(21,857)</b>	<b>(63,569)</b>	<b>(85,426)</b>	<b>115,349</b>
<b>Net assets at beginning of year</b>	<b>1,532,408</b>	<b>262,873</b>	<b>1,795,281</b>	<b>1,679,932</b>
<b>Net assets at end of year</b>	<b>\$ 1,510,551</b>	<b>\$ 199,304</b>	<b>\$ 1,709,855</b>	<b>\$ 1,795,281</b>

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

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2014**  
**With Comparative Totals for the Year Ended June 30, 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (85,426)	\$ 115,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,990	43,625
Unrealized gain on beneficial interest	(731)	(821)
Increase in grants and other receivables	(12,848)	(2,434)
Decrease (increase) in contributions receivable	65,477	(12,461)
Increase in prepaid expenses	(4,524)	(21,049)
Decrease in accounts payable	(4,746)	(4,263)
Increase (decrease) in accrued payroll	12,816	(2,794)
Increase (decrease) in accrued vacation	9,056	(4,647)
Decrease in unearned revenue	<u>(2,173)</u>	<u>(2,173)</u>
<b>Net cash provided by operating activities</b>	<u>18,891</u>	<u>108,332</u>
<b>Cash flows from investing activities</b>		
Purchases of investments, certificates of deposits	(450,000)	-
Purchases of property and equipment	<u>(3,190)</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<u>(453,190)</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Payments on notes payable	<u>(21,516)</u>	<u>(20,131)</u>
<b>Net cash used in financing activities</b>	<u>(21,516)</u>	<u>(20,131)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(455,815)	88,201
<b>Cash and cash equivalents, beginning of year</b>	<u>898,370</u>	<u>810,169</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 442,555</u>	<u>\$ 898,370</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, 2014**  
**With Comparative Totals for the Year Ended June 30, 2013**

	2014												2013 Total Expenses	
	Program													
	Legal Services Corporation	Elderly Services	Legal Services Corporation of Virginia	United Way	Local Government Funding	Other Grants	Property and Equipment	General	Healthcare Exchange	Total Program Expenses	Management and General	Fund Raising	Total Expenses	
Lawyers' salaries	\$ 236,332	\$ 20,074	\$ 345,697	\$ 50,852	\$ 18,646	\$ 96,200	\$ -	\$ 25,525	\$ -	\$ 793,326	\$ 105,167	\$ 6,259	\$ 904,752	\$ 865,480
Non-lawyer salaries	155,542	25,159	221,155	29,365	17,228	51,861	-	23,584	50,025	573,919	166,347	97,678	837,944	761,564
Employee benefits	148,399	8,407	194,801	19,412	11,696	26,013	-	16,010	8,131	432,869	77,119	20,563	530,551	520,577
Contract services	8,739	-	7,823	981	678	600	-	929	127	19,877	11,848	-	31,725	26,086
Travel	3,188	-	7,125	1,316	602	2,526	-	3,778	5,628	24,163	7,259	2,954	34,376	24,966
Office	18,630	-	69,904	12,478	3,209	36,519	-	12,538	3,554	156,832	31,812	8,145	196,789	184,188
Library maintenance	12,691	-	18,696	1,389	897	1,900	-	1,230	8	36,811	2,023	-	38,834	36,855
Telephone	13,742	-	21,081	2,013	1,057	850	-	2,052	2,325	43,120	3,287	605	47,012	42,053
Training	5,434	-	7,840	770	505	2,212	-	693	446	17,900	5,546	-	23,446	21,102
Insurance	1,406	-	2,029	192	132	750	-	181	-	4,690	1,480	-	6,170	6,374
Litigation	1,536	-	2,271	542	102	450	-	138	-	5,039	-	-	5,039	1,654
In-kind expenditures	105,724	-	-	-	-	-	-	-	-	105,724	-	-	105,724	102,146
Miscellaneous	99	-	11,639	338	3	6,328	-	-	-	18,407	744	-	19,151	23,711
Depreciation	-	-	-	-	-	-	41,990	-	-	41,990	-	-	41,990	43,625
<b>Total expenses</b>	<b>\$ 711,462</b>	<b>\$ 53,640</b>	<b>\$ 910,061</b>	<b>\$ 119,648</b>	<b>\$ 54,755</b>	<b>\$ 226,209</b>	<b>\$ 41,990</b>	<b>\$ 86,658</b>	<b>\$ 70,244</b>	<b>\$ 2,274,667</b>	<b>\$ 412,632</b>	<b>\$ 136,204</b>	<b>\$ 2,823,503</b>	<b>\$ 2,660,381</b>

The accompanying notes are an integral  
part of the financial statements



## **VIRGINIA LEGAL AID SOCIETY, INC.**

### **Notes to Financial Statements**

**June 30, 2014**

#### **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, 2013, 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, 2014**

**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 \$17,462, for the year ended June 30, 2014, primarily represented income arising from fundraising events, litigation, and miscellaneous income amounting to \$3,120, \$12,169, and \$2,173, respectively.

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Notes to Financial Statements, continued**  
**June 30, 2014**

**Note 3 - In-kind support**

Donated services for the year ended June 30, 2014, are summarized as follows:

Pro bono program	\$ 105,724
Donated repairs and maintenance	<u>4,490</u>
	<u>\$ 110,214</u>

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, 2014, is as follows:

Basic LSC Grant	<u>\$ 806,380</u>
12.5% PAI spending requirement	<u>\$ 100,798</u>
Private attorney involvement expenses	<u>\$ 132,929</u>

**Note 5 - Cash and cash equivalents**

At June 30, 2014, cash and cash equivalents amounted to \$442,555, and included money market funds and savings accounts amounting to \$281,576.

**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, 2014, there were no deposits that were not secured by the FDIC. The unsecured contributions and grants receivables are due primarily from United Way agencies, private foundations, local governments, and individuals. Approximately 64% and 15% of contributions and grants receivable at June 30, 2014, are due from four United Way agencies and a nonprofit organization, respectively. Management believes there are no significant credit risks regarding these receivables as of June 30, 2014.

**Note 7 - Supplemental cash flow information**

Interest expensed and paid during the year ended June 30, 2014, amounted to \$10,456.

**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, 2014, amounted to \$49,897.

continued

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Notes to Financial Statements, continued**  
**June 30, 2014**

**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, 2014, the portion of the Society's temporarily restricted net assets attributable to LSC funding amounted to \$67,342. Other temporarily restricted net assets consist of amounts restricted for operating use by the Society for the year ending June 30, 2015, 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, 2014, these other temporarily restricted net assets amounted to \$131,962.

During the current year ended June 30, 2014, net assets were released from donor restrictions by satisfying the time and use restrictions specified by the donors in the amount of \$193,167.

The Society's Board of Directors has designated unrestricted net assets amounting to \$20,099 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, 2014, rental expense was \$14,964 and \$3,174 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, 2014, are as follows:

Year Ending <u>June 30</u>	
2015	<u>\$ 765</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 and derivative income. The Society's calculation of this requirement is as follows:

LSC annualized grants	\$ 806,380
Income derived from LSC grant	<u>11,043</u>
Total LSC support	<u>\$ 817,423</u>
Allowable net assets (10%)	<u>\$ 81,742</u>
LSC net assets	<u>\$ 67,342</u>

continued

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Notes to Financial Statements, continued**  
**June 30, 2014**

**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, 2014, the Society recognized a net realized and unrealized gain, amounting to \$731, 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, 2014 through September 29, 2014, the date on which these financial statements were available to be issued.

**Note 14 – Property and equipment**

Property and equipment as of June 30, 2014 and 2013, are as follows:

	June 30, 2014		June 30, 2013	
	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	166,868	150,830	173,234	147,082
Buildings and leasehold improvements	902,195	324,672	899,004	292,796
Land	<u>86,015</u>	<u>-</u>	<u>86,015</u>	<u>-</u>
	<u>\$1,187,541</u>	<u>\$ 503,635</u>	<u>\$1,190,716</u>	<u>\$ 468,011</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, 2014, the property and equipment in which LSC claims a reversionary interest had a total acquisition value and accumulated depreciation of \$114,420 and \$99,350, respectively.

continued

**VIRGINIA LEGAL AID SOCIETY, INC.**  
**Notes to Financial Statements, continued**  
**June 30, 2014**

**Note 15 – Long-term liabilities**

At June 30, 2014, 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	\$ 144,619
Less current maturities	<u>23,001</u>
	<u>\$ 121,618</u>

Principal payments on the note payable are scheduled as follows:

Year ending June 30, 2015	\$ 23,001
Year ending June 30, 2016	24,564
Year ending June 30, 2017	26,273
Year ending June 30, 2018	28,080
Year ending June 30, 2019	30,012
Years ending thereafter	<u>12,689</u>
	<u>\$ 144,619</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, 2014, uncollected amounts on LSC's 2014 calendar year award amounted to approximately \$351,000.

**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, 2011, 2012, 2013, and 2014 remain subject to such examination as of June 30, 2014.