

VIRGINIA LEGAL AID SOCIETY, INC.

Financial Statements

For the Year Ended June 30, 2020



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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, 2020, 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.

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, 2020, 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, 2019, and our report dated October 24, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information as of and for the year ended June 30, 2019, and which is presented with the aforementioned financial statements as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it was derived.

Coley, Eubank & Company, P.C.

Lynchburg, Virginia
December 17, 2020



VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Financial Position
June 30, 2020
With Comparative Totals for June 30, 2019

Assets

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 1,019,126	\$ 731,416
Cash in escrow, client deposits	7,577	-
Investments, certificates of deposit	450,000	450,000
Contributions receivable	139,228	92,656
Grants receivable	401,627	29,147
Other receivables	4,610	3,192
Prepaid expenses	<u>43,275</u>	<u>44,401</u>
Total current assets	<u>2,065,443</u>	<u>1,350,812</u>
Property and equipment		
Land, buildings, furniture, and equipment	1,492,558	1,496,323
Less accumulated depreciation	<u>664,998</u>	<u>636,034</u>
Net property and equipment	<u>827,560</u>	<u>860,289</u>
Other assets		
Beneficial interest in net assets of Greater Lynchburg Community Foundation	<u>9,117</u>	<u>9,922</u>
Total assets	<u>\$ 2,902,120</u>	<u>\$ 2,221,023</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 84,243	\$ 17,876
Accrued payroll	62,309	35,481
Accrued vacation	73,550	49,739
Deferred revenue	207,051	-
Note payable	278,200	-
Current maturities of long-term liabilities	-	12,715
Client trust deposits	<u>7,577</u>	<u>-</u>
Total current liabilities	712,930	115,811
Long-term liabilities		
Notes payable, net of current maturities	<u>-</u>	<u>-</u>
Total liabilities	<u>712,930</u>	<u>115,811</u>
Net assets		
Without donor restrictions	<u>1,971,280</u>	<u>1,847,774</u>
With donor restrictions:		
Legal Services Corporation	-	69,346
Other	<u>217,910</u>	<u>188,092</u>
	<u>217,910</u>	<u>257,438</u>
Total net assets	<u>2,189,190</u>	<u>2,105,212</u>
Total liabilities and net assets	<u>\$ 2,902,120</u>	<u>\$ 2,221,023</u>

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

VIRGINIA LEGAL AID SOCIETY, INC.
Statement of Activities
Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

	2020		Total	2019 Total
	Without Donor Restrictions	With Donor Restrictions		
Support and revenue				
Legal Services Corporation:				
Basic field grant	\$ 689,709	\$ -	\$ 689,709	\$ 876,387
Pro Bono Innovation Fund	-	-	-	67,499
COVID-19 response	40,926	-	40,926	-
Enroll Virginia Program grants	111,629	-	111,629	125,106
Victim services	407,709	-	407,709	-
Other grants	1,952,916	129,718	2,082,634	1,850,633
United Way	18,356	87,114	105,470	88,481
Contributions	84,741	-	84,741	90,711
Interest	11,402	-	11,402	12,069
Other	41,552	-	41,552	7,079
In-kind support	<u>148,728</u>	-	<u>148,728</u>	<u>173,968</u>
Total	3,507,668	216,832	3,724,500	3,291,933
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>256,360</u>	<u>(256,360)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,764,028</u>	<u>(39,528)</u>	<u>3,724,500</u>	<u>3,291,933</u>
Expenses				
Program services				
Legal assistance	2,778,775	-	2,778,775	2,402,708
Enroll Virginia	111,867	-	111,867	123,852
Supporting services				
Management and general	569,968	-	569,968	516,142
Fund raising	<u>179,912</u>	<u>-</u>	<u>179,912</u>	<u>167,385</u>
Total expenses	<u>3,640,522</u>	<u>-</u>	<u>3,640,522</u>	<u>3,210,087</u>
Change in net assets	123,506	(39,528)	83,978	81,846
Net assets at beginning of year	<u>1,847,774</u>	<u>257,438</u>	<u>2,105,212</u>	<u>2,023,366</u>
Net assets at end of year	<u>\$ 1,971,280</u>	<u>\$ 217,910</u>	<u>\$ 2,189,190</u>	<u>\$ 2,105,212</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, 2020
With Comparative Totals for the Year Ended June 30, 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 83,978	\$ 81,846
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,076	64,119
Proceeds from insurance claim	(31,191)	-
Loss on disposal of assets	2,283	-
Unrealized loss on beneficial interest	803	(290)
(Increase) decrease in grants and other receivables	(373,898)	20,253
Increase in contributions receivable	(46,572)	(4,623)
Decrease in prepaid expenses	1,126	13,209
Increase (decrease) in accounts payable	66,367	(29,353)
Increase (decrease) in accrued payroll	26,828	(2,074)
Increase (decrease) in accrued vacation	23,811	(13,016)
Increase (decrease) in client trust deposits	7,577	(9,134)
Increase in deferred revenue	207,051	-
Net cash provided by operating activities	<u>20,239</u>	<u>120,937</u>
Cash flows from investing activities		
Proceeds from insurance claim	31,191	-
Purchases of property and equipment	(21,628)	-
Net cash provided by investing activities	<u>9,563</u>	<u>-</u>
Cash flows from financing activities		
Proceeds from borrowings	278,200	-
Payments on notes payable	(12,715)	(30,006)
Net cash provided by (used in) financing activities	<u>265,485</u>	<u>(30,006)</u>
Net increase in cash, cash equivalents, and restricted cash	295,287	90,931
Cash, cash equivalents, and restricted cash, beginning of year	<u>731,416</u>	<u>640,485</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 1,026,703</u> *	<u>\$ 731,416</u> *

*Presented in the accompanying statement of
financial position as follows:

Cash and cash equivalents	\$ 1,019,126	\$ 731,416
Cash in escrow, client deposits	<u>7,577</u>	<u>-</u>
	<u>\$ 1,026,703</u>	<u>\$ 731,416</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, 2020

With Comparative Totals for the Year Ended June 30, 2019

	2020																2019
	Program																Total
	Legal	Elderly	Legal	Victim	United	Local	Legal	Legal	Property		Enroll	Total	Management	Fund	Total	2019	
	Services	Services	Services	Services	Way	Government	Services	Services	and	General	Virginia	Program	and	Raising	Expenses	Total	
	Corporation		Corporation			Funding	Corporation	Corporation	Equipment			Expenses	General		Expenses	Expenses	
			of Virginia				Pro Bono	COVID-19		Grants							
							Innovation	Response									
							Fund										
Lawyers' salaries	\$ 167,036	\$ 24,938	\$ 205,503	\$ 236,443	\$ 44,884	\$ 17,443	\$ -	\$ 9,035	\$ 249,604	\$ -	\$ 143,210	\$ -	\$ 1,098,096	\$ 119,390	\$ 6,132	\$ 1,223,618	\$ 1,011,569
Non-lawyer salaries	100,894	30,477	85,856	94,754	16,855	17,254	1,142	8,858	72,820	-	136,874	83,152	648,936	180,845	129,825	959,606	886,858
Employee benefits	167,132	9,250	125,971	88,923	13,971	12,279	87	6,071	73,972	-	64,450	22,157	584,263	71,318	30,388	685,969	599,958
Contract services	7,811	-	-	3,139	1,599	969	-	532	29,917	-	2,877	215	47,059	46,930	1,293	95,282	92,188
Travel	699	-	-	12,004	701	199	-	226	2,491	-	2,195	1,039	19,554	4,387	1,931	25,872	27,947
Office	10,767	-	26,662	17,754	11,283	3,806	-	13,428	68,303	-	7,846	2,304	162,153	110,348	9,201	281,702	225,132
Library maintenance	8,449	-	7,040	2,688	771	452	-	260	4,133	-	599	-	24,392	529	-	24,921	18,904
Telephone	29,063	-	17,466	350	2,055	2,035	-	1,989	5,527	-	3,296	3,000	64,781	24,374	600	89,755	67,370
Training	6,392	-	2,204	4,390	468	431	-	285	3,504	-	572	-	18,246	7,678	-	25,924	17,821
Insurance	5,211	-	3,485	1,006	229	332	-	178	1,839	-	439	-	12,719	3,056	-	15,775	14,420
Litigation	2,079	-	1,773	744	625	109	-	64	1,212	-	144	-	6,750	-	-	6,750	5,219
In-kind expenditures	139,658	-	-	9,070	-	-	-	-	-	-	-	-	148,728	-	-	148,728	173,968
Miscellaneous	-	-	525	-	81	-	-	-	-	-	-	-	606	1,113	542	2,261	4,614
Loss on disposal of assets	-	-	-	-	-	-	-	-	-	-	2,283	-	2,283	-	-	2,283	-
Depreciation	-	-	-	-	-	-	-	-	-	52,076	-	-	52,076	-	-	52,076	64,119
Total expenses	\$ 645,191	\$ 64,665	\$ 476,485	\$ 471,265	\$ 93,522	\$ 55,309	\$ 1,229	\$ 40,926	\$ 513,322	\$ 54,359	\$ 362,502	\$ 111,867	\$ 2,890,642	\$ 569,968	\$ 179,912	\$ 3,640,522	\$ 3,210,087

The accompanying notes are an integral part of the financial statements

VIRGINIA LEGAL AID SOCIETY, INC.

Notes to Financial Statements

June 30, 2020

Note 1 – Nature of activities and 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, Martinsville, 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.

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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, 2019, from which the summarized information was derived.

Support, revenue, and promises to give

The Society evaluates funding, including grants, received from its resource providers and determines if the funding or grant is an exchange transaction or contribution.

If the funding received is determined to be a reciprocal transaction, it will be accounted for as an exchange transaction. As such, revenues will be recognized as the goods or services are transferred to the resource provider in accordance with the terms and conditions of the agreement or contract with the resource provider.

If the funding received is determined to be a non-reciprocal transaction, it will be accounted for as a contribution. Once the funding has been determined to be a contribution, it must further be evaluated to determine if the contribution is conditional and/or is restricted. A contribution is deemed conditional if the resource provider has imposed a barrier on the contribution that must be overcome before the Society is entitled to the contribution and there exists either a right of return of resources transferred or a right of release of a resource provider’s obligation to transfer resources. Conditional contributions will not be recognized as income until such time as the conditions placed on them have been satisfied. Accordingly, conditional contributions received by the Society will be recognized as deferred revenue, a liability, until such time as the conditions have been satisfied. Conditional promises to give received by the Society will not be recognized until the conditions under which they were made have been satisfied.

Unconditional contributions, including unconditional promises to give, are recognized when received by the Society. Unconditional promises to give are presented at the amounts expected to be collected, which are estimated to approximate fair value. Unconditional contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. In addition, conditional contributions that are also restricted by the donor are reported as increases in net assets without donor restrictions if the conditions are met and the restrictions expire

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 1 - Nature of activities and summary of significant accounting policies (continued)

Support, revenue, and promises to give (continued)

in the fiscal year in which the contributions are received and recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

LSC has indicated that the grants it provides to the Society are not exchange transactions but, instead, contributions with conditions. As a result, any grants received from LSC but have not been expended are considered deferred revenue and are presented as a liability in the accompanying statement of financial position. This deferred revenue will be recognized as income once the conditions upon which they were granted are satisfied. 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 grants. The awarding of LSC funds is considered a conditional promise to give because LSC awards such funds subject to the availability of federal funding.

The Society's management has evaluated its other support, including grants, and has determined that they are not exchange transactions but, instead, are contributions without conditions. Accordingly, this support is recognized as income when received. A receivable is recognized to the extent costs have been incurred under the terms of the support agreements and not reimbursed.

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 and restricted cash

For purposes of the statement of cash flows, the Society considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents. Restricted cash consists primarily of client deposits held in escrow.

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.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 1 - Nature of activities and summary of significant accounting policies (continued)

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 detail in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Therefore, these expenses require allocation on a reasonable basis consistently applied. Such expenses are allocated based on management's experience and history as well as management's evaluation and estimation of the nature of the expense.

Accounting policy changes

During the year ended June 30, 2020, the Society adopted the provisions of the following Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board ("FASB"):

ASU 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made":

FASB issued this ASU to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional.

As in the past, the Society is required to evaluate and determine if the funding received from its resource providers is a contribution or an exchange transaction. The ASU clarifies whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred based on criteria as set forth in the ASU. If the resources provided are deemed to be contributions, i.e. not exchange transactions, the Society is required to determine whether the contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. As a result, conditional contributions received will not be recognized as income until the conditions have been satisfied. Instead, they will be recognized as a liability in the Society's statements of financial position.

The adoption of this ASU has not affected any prior periods.

ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities":

This ASU became effective for the Society during its current year ended June 30, 2020.

FASB issued this ASU to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Although this ASU contains several provisions, the one that is primarily applicable to the Society is the requirement for separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the statement of financial position or the accompanying notes to the financial statements.

Because the Society currently adheres to the provisions of this ASU, no changes have been made to the Society's financial statements.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 1 - Nature of activities and summary of significant accounting policies (continued)

Accounting policy changes (continued)

ASU 2016-18, “Restricted Cash”:

FASB issued this ASU to address the diversity that currently exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU require that a statement of cash flows explain the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts shown on the statement of cash flows.

As a result of adopting the provisions of this ASU, the Society now presents the changes in its restricted cash in its statements of cash flows. As previously discussed, the Society’s restricted cash consists primarily of client deposits held in escrow.

The comparative totals for the year ended June 30, 2019 included in the accompanying statement of cash flows have been restated to include the provisions of this ASU.

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 - In-kind support

Donated services for the year ended June 30, 2020, are summarized as follows:

Pro bono program (donated attorneys’ services)	<u>\$ 148,728</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 attorneys’ services are recognized as support and expenses in the accompanying financial statements.

Note 3 - 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 allocation, as compared with the PAI expenses for the year ended June 30, 2020, is as follows:

Basic LSC Grant	<u>\$ 845,513</u>
12.5% PAI spending requirement	<u>\$ 105,689</u>
Actual private attorney involvement expenses	<u>\$ 145,691</u>

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 4 - Other revenue

Other revenue, amounting to \$41,552, for the year ended June 30, 2020, represented income from an insurance claim, litigation, and miscellaneous sources amounting to \$31,191, \$5,895, and \$4,466, respectively.

Note 5 – Cash, cash equivalents, and restricted cash

At June 30, 2020, cash and cash equivalents amounted to \$1,019,126, and included money market funds and savings accounts amounting to \$292,438. At June 30, 2020, restricted cash consisted of client deposits held in escrow amounting to \$7,577.

Note 6 – Supplemental cash flow information

Interest expensed and paid during the year ended June 30, 2020, amounted to \$526.

Note 7 - 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, 2020, the Society’s deposits exceeded the FDIC insured limits by approximately \$498,000. The unsecured contributions and grants receivables are due primarily from United Way agencies, private foundations, state and local governments, and individuals. Approximately 51% and 36% of contributions receivable at June 30, 2020, were due from four United Way agencies and a private foundation, respectively. In addition, as of June 30, 2020, approximately 84% of grants receivable was due from a department of the Commonwealth of Virginia. During the year ended June 30, 2020, approximately 36%, 20%, and 11% of the Society’s support and revenue were derived from LSCV, LSC, and the Virginia Department of Criminal Justice Services, respectively. Management believes there are no significant credit risks regarding these excess deposits or other concentrations as of and for the year ended June 30, 2020.

Note 8 - Retirement plan

The Society has a voluntary tax deferred annuity plan for all qualified employees. During the current year ended June 30, 2020, the Society’s contributions to the plan amounted to \$61,980.

Note 9 – Donor restricted and designated net assets

Donor restricted net assets amounting to \$217,910 are restricted for operating use by the Society for the year ending June 30, 2021, for the *Medical Access Project, Housing, Improvement & Preservation, Crisis & Income Protection*, and *Strengthening Families with Children* programs and for specific property.

During the current year ended June 30, 2020, net assets were released from donor restrictions by satisfying the time and use restrictions specified by the donors in the amount of \$256,360.

The Society’s Board of Directors has designated unrestricted net assets amounting to \$66,818 for building improvements and emergency repairs.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 10 - Leases

The Society rents parking space for some of its branch offices and office equipment under various lease arrangements. During the year ended June 30, 2020, rental expense was \$8,365 and \$2,337 for parking 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, 2020, are as follows:

<u>Year Ending</u>	
June 30, 2021	\$ 2,304
June 30, 2022	2,004
June 30, 2023	<u>1,416</u>
	<u>\$ 5,724</u>

Note 11 - LSC funding retention requirements

LSC recipients are permitted to retain from one fiscal year to the next LSC fund balances up to 10% of their LSC support which includes derivative income and excludes one-time and special purpose grants. Recipients may request a waiver to retain a fund balance up to a maximum of 25% of their LSC support for special circumstances. In addition, recipients may request a waiver to retain a fund balance in excess of 25% of a recipient's LSC support only for extraordinary and compelling circumstances. Waivers may be granted at the discretion of LSC and, in the absence of a waiver, a fund balance in excess of 10% of LSC support shall be repaid to the LSC. If a waiver of the 10% ceiling is granted, any fund balance in excess of the amount permitted to be retained shall be repaid to the LSC.

As of June 30, 2020, the Society's retained funds amounted to \$155,805, or 18.4% of LSC support, resulting in excess retained funds amounting to \$71,035 computed as follows:

LSC retained funds		\$ 155,805
Less allowable amounts:		
Basic field grant	\$ 845,513	
Derivative income	<u>2,184</u>	
Total LSC support	847,697	
Times allowable percentage	<u>X 10%</u>	
Allowable amount		<u>84,770</u>
Excess		<u>\$ 71,035</u>

The aforementioned excess retained funds is the result of the impact that the current COVID-19 pandemic has had on the Society's operations (please see Note 17). The Society intends to request a waiver for the excess retained funds and LSC has indicated that they will be flexible in granting such waivers due to the pandemic. Furthermore, the Society's management expects these excess funds will be expended during its year ending June 30, 2021, unless additional COVID-19 response funding is provided in future legislation.

Note 12 – 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, 2020, uncollected amounts on LSC's 2020 calendar year award amounted to approximately \$360,600.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 13 – Beneficial interest in net assets of Greater Lynchburg Community Foundation

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 Foundation (the “GLCF”). Under the terms of the Society’s agreement with GLCF, the transfer is irrevocable and GLCF will, upon the Society’s request, make annual distributions of the income earned by the Fund. In addition, the Society has granted GLCF variance power, i.e. the right to redirect, consistent with GLCF’s rules and regulations, the benefits of the transferred amounts.

During the year ended June 30, 2020, the Society recognized a net realized and unrealized loss, amounting to \$805, 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 14 – Property and equipment

Property and equipment as of June 30, 2020 and 2019, are as follows:

	June 30, 2020		June 30, 2019	
	Acquisition Value	Accumulated Depreciation	Acquisition Value	Accumulated Depreciation
Furniture and fixtures - donated	\$ 4,318	\$ -	\$ 4,318	\$ -
Furniture and fixtures	26,235	25,027	26,325	24,079
Equipment	164,761	145,090	183,133	152,528
Buildings and leasehold improvements	1,144,429	494,881	1,129,732	459,427
Land	<u>152,815</u>	<u>-</u>	<u>152,815</u>	<u>-</u>
	<u>\$ 1,492,558</u>	<u>\$ 664,998</u>	<u>\$ 1,496,323</u>	<u>\$ 636,034</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, 2020, the property and equipment in which LSC claims a reversionary interest had a total acquisition value and accumulated depreciation of \$97,982 and \$92,465, respectively.

Note 15 – Note payable

Pursuant to the Paycheck Protection Program provided by the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act enacted by the U.S. Congress, the Society applied for, and received, a loan in the amount of \$278,200 in April 2020 from a local bank. The loan is unsecured and bears interest at the rate of 1.00% per annum.

In accordance with the CARES Act, and, in December 2020, the Society’s management requested complete forgiveness of the loan and, as a result, fully expects such request to be granted. Any amounts forgiven will be recognized as income at the time of forgiveness. However, any amounts not forgiven will be scheduled to be paid ratably over eighteen (18) months. Since management fully expects the loan to be settled, i.e. forgiven, on or before June 30, 2021, the loan is presented as a current liability in the accompanying statement of financial position.

continued

VIRGINIA LEGAL AID SOCIETY, INC.
Notes to Financial Statements, continued
June 30, 2020

Note 16 – Liquidity and availability of financial assets

As of June 30, 2020, the following financial assets are available within one year to meet the Society’s cash needs for general expenditures:

Financial assets as of June 30, 2020:

Cash and cash equivalents	\$ 1,019,126
Investments, certificates of deposit	450,000
Contributions and grants receivable	540,855
Other receivables	<u>4,610</u>
Total financial assets at June 30, 2020	<u>2,014,591</u>

Less those financial assets unavailable for general expenditures within one year due to:

Donor imposed restrictions	201,294
Board designations	<u>66,818</u>
	<u>268,112</u>

Financial assets available to meet cash needs for general expenditures within one year from June 30, 2020	<u>\$ 1,746,479</u>
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As part of the Society’s liquidity management, it invests cash in excess of estimated current needs in savings and money market accounts and certificates of deposit maintained by local banks.

Note 17 – Coronavirus (“COVID-19”) pandemic

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) occurred and has since spread to other countries, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the United States, including the Commonwealth of Virginia, have declared a state of emergency. It is anticipated that this pandemic will continue for some time. The most significant impact on the Society’s operations have been a decrease in cases handled, increase in remote consultations with clients, increase in staff working remotely, additional funding from LSC as presented in the accompanying statement of activities, and an additional borrowing as described in Note 15. Future potential impacts may include reductions in the Society’s funding as well as disruptions or restrictions on the Society’s ability to service its clients. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown; however, management fully intends to take all possible actions to mitigate any future effects caused by the pandemic.

Note 18 – Subsequent events

Management has evaluated subsequent events for the period July 1, 2020 through December 17, 2020, the date on which these financial statements were available to be issued. Those subsequent events identified and requiring disclosure in these financial statements are set forth in Notes 11, 15, and 17.