

LEGAL AID JUSTICE CENTER

**Financial Statement
and
Accompanying Information
for the year ended
June 30, 2016**

**(With comparative financial information
as of June 30, 2015)**

LEGAL AID JUSTICE CENTER

Contents

	Page
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11
Accompanying Information	
Schedule of Support, Revenue and Expenses and Changes in Net Assets	12

Frank Barcalow CPA, P.L.L.C.
Certified Public Accountant

Independent Auditor's Report

The Board of Directors
Legal Aid Justice Center
Charlottesville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Legal Aid Justice Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid Justice Center as of June 30, 2016, 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 Legal Aid Justice's 2015 financial statements, and our report dated July 24, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of support, revenue and expenses are presented for purposes of additional analysis and is 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
July 22, 2016

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Legal Aid Justice Center

-3-

Statement of Financial Position

June 30, 2016

(with comparative totals for the year ended June 30, 2015)

Assets	2016	2015
Current assets		
Cash and cash equivalents	\$ 606,758	\$ 684,001
Investments	1,500,005	-
Cash in escrow, client deposits	45,052	76,725
Other receivables	267,892	179,174
Prepaid expenses	67,202	64,323
Deposits	15,616	13,545
Total current assets	<u>2,502,525</u>	<u>1,017,768</u>
Property and equipment		
Furniture, improvements and property, net	<u>1,549,955</u>	<u>1,677,932</u>
Total assets	<u>\$ 4,052,480</u>	<u>\$ 2,695,700</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 93,290	\$ 46,758
Accrued annual leave	97,622	157,174
Note payable - short term	34,005	32,773
Client deposits	45,052	76,725
Unearned revenue	1,278,882	331,263
Deposits payable	4,697	4,697
Total current liabilities	<u>1,553,548</u>	<u>649,390</u>
Note Payable	<u>379,962</u>	<u>414,238</u>
Total liabilities	<u>1,933,510</u>	<u>1,063,628</u>
Commitments		
Net assets		
Unrestricted		
General	982,982	401,151
Property and equipment	<u>1,135,988</u>	<u>1,230,921</u>
Total unrestricted	<u>2,118,970</u>	<u>1,632,072</u>
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>2,118,970</u>	<u>1,632,072</u>
Total liabilities and net assets	<u>\$ 4,052,480</u>	<u>\$ 2,695,700</u>

See notes to financial statements.

Legal Aid Justice Center

Statement of Activities

For the Year Ended June 30, 2016

(with summarized totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Support and revenue				
Grants and contracts	\$ 3,435,127	\$ -	\$ 3,435,127	\$ 2,897,462
Local funding	641,824	-	641,824	649,863
Interest	275	-	275	1
Donated services	3,062,094	-	3,062,094	3,394,178
Contributions	136,712	-	136,712	664,541
Attorney fees	812,747	-	812,747	42,727
Other income	64,630	-	64,630	69,189
	<u>8,153,409</u>	<u>-</u>	<u>8,153,409</u>	<u>7,717,961</u>
Net assets released from restrictions Expiration of time or purpose restrictions	-	-	-	-
Total support and revenue	<u>8,153,409</u>	<u>-</u>	<u>8,153,409</u>	<u>7,717,961</u>
Expenses				
Program services				
Legal assistance	7,080,281	-	7,080,281	6,866,713
Supporting services				
Management and general	301,074	-	301,074	257,284
Fund-raising expenses	285,156	-	285,156	278,900
Total expenses	<u>7,666,511</u>	<u>-</u>	<u>7,666,511</u>	<u>7,402,897</u>
Change in net assets	486,898	-	486,898	315,064
Net assets at beginning of year	<u>1,632,072</u>	<u>-</u>	<u>1,632,072</u>	<u>1,317,008</u>
Net assets at end of year	<u>\$ 2,118,970</u>	<u>\$ -</u>	<u>\$ 2,118,970</u>	<u>\$ 1,632,072</u>

See notes to financial statements.

Legal Aid Justice Center

Statement of Functional Expenses

June 30, 2016

(with summarized totals for the year ended June 30, 2015)

	Program Services	Supporting Services	Fundraising Expense	2016 Total Expenses	2015 Total Expenses
Attorney salaries	\$ 1,322,981	\$ 65,888	\$ 16,881	\$ 1,405,750	\$ 1,302,797
Fringe benefits	724,501	59,875	42,284	826,660	632,189
Other professional salaries	791,019	115,551	111,253	1,017,823	903,259
Audit	7,380	820	-	8,200	8,200
Board expenses	2,006	106	-	2,112	1,906
Communication	99,345	5,289	1,153	105,787	114,552
Consultant fees	92,659	4,877	-	97,536	53,612
Consumables	24,937	1,396	1,588	27,921	23,160
Donated services and equipment	3,062,094	-	-	3,062,094	3,394,178
Equipment rental and repair	217,302	11,437	-	228,739	236,179
Fundraising	-	-	104,056	104,056	103,804
Insurance	23,177	1,226	125	24,528	23,712
Interest expense	13,388	705	-	14,093	16,208
Library expense	20,462	1,077	-	21,539	22,650
Litigation	40,637	-	-	40,637	30,869
Occupancy	273,738	14,573	3,157	291,468	235,960
Office dues	20,668	1,088	-	21,756	17,586
Other expenses	90,649	4,771	-	95,420	22,535
Postage	7,993	473	985	9,450	9,144
Recruiting	896	47	-	943	2,166
Reproduction	9,755	632	2,249	12,636	24,039
Subgrants	22,500	-	-	22,500	-
Technologies upgrades	5,000	263	-	5,263	26,924
Training	33,829	1,780	-	35,609	24,628
Travel	60,077	3,237	1,425	64,739	53,455
Depreciation	113,289	5,963	-	119,252	119,185
	<u>\$ 7,080,281</u>	<u>\$ 301,074</u>	<u>\$ 285,156</u>	<u>\$ 7,666,511</u>	<u>\$ 7,402,897</u>

See notes to financial statements.

Legal Aid Justice Center

-6-

Statement of Cash Flows

For the Year Ended June 30, 2016

(with comparative totals for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 486,894	\$ 315,064
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities		
Loss on disposal of assets	63,960	-
Depreciation	119,252	119,185
(Increase) decrease in receivables	(88,718)	148,520
(Increase) decrease in prepaid expenses	(2,879)	(41,684)
(Increase) decrease in deposits	(2,070)	(6,170)
Increase (decrease) in accounts payable	46,535	(34,890)
Increase (decrease) in unearned revenue	947,620	317,930
Increase (decrease) in deposits payable	-	100
Increase (decrease) in accrued annual leave	<u>(59,552)</u>	<u>13,477</u>
Net cash provided by (used by) operations	<u>1,511,042</u>	<u>831,532</u>
Cash flows used in investing activities		
Additions to property and equipment	(55,236)	(38,365)
Additions to investments	<u>(1,500,005)</u>	<u>-</u>
Net cash provided by (used by) investing activities	<u>(1,555,241)</u>	<u>(38,365)</u>
Cash flows used in financing activities		
Principle payments on note payable	(33,044)	(33,188)
Payments on line of credit	-	(198,828)
Loan from line of credit	<u>-</u>	<u>-</u>
Net cash provided by (used by) financing activities	<u>(33,044)</u>	<u>(232,016)</u>
Net increase (decrease) in cash and cash equivalents	(77,243)	561,151
Cash and cash equivalents, beginning of year	<u>684,001</u>	<u>122,850</u>
Cash and cash equivalents, end of year	\$ <u><u>606,758</u></u>	\$ <u><u>684,001</u></u>

See notes to financial statements.

Notes to Financial Statements

June 30, 2016

Note 1 - Summary of significant accounting policies

Nature of activities

Legal Aid Justice Center (LAJC) is a non-profit corporation organized for the purpose of providing legal assistance in non-criminal proceedings or matters to persons financially unable to afford legal assistance in Virginia.

Promises to give

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. 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.

The Corporation uses the allowance method to determine uncollectible unconditional contributions receivable. Historically, there have not been significant differences between the amounts allocated and collected. Accordingly, no provision has been made for uncollectible amounts.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States. Under generally accepted accounting principles, Legal Aid Justice Center 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 Corporation does not have any permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States 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, Legal Aid Justice Center considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude restricted cash and cash equivalents.

Investments

Investments are in certificate of deposits for three months and have readily determinable fair values and all investments are reported at their fair values which also approximate cost. The value of investments was \$1,500,005 for the current year. The certificate of deposits have an interest rate of 0.400% to .450%, and mature in August 2016.

(continued)

Notes to Financial Statements

June 30, 2016

Note 1 - Summary of significant accounting policies (continued)

Grant contract support

Legal Aid Justice Center recognizes grant funds as awarded.

Donated services

Legal Aid Justice Center recognizes donated services as support. Donated services, in conjunction with private attorney involvement, represent delivery of free legal assistance to eligible clients. A matching expense is also recorded. The value of the donated services is recorded at market value as determined by the Board of Directors each year. Other attorney's services were valued at the amount certified to the State under the Neighborhood Assistance Act program in the current year. Other in-kind contributions are recorded when received at fair value as income and expense.

Property and equipment

Building, land and equipment are stated at cost, if purchased, and at fair value at date of receipt, if donated. Expenditures for acquisition, renewals and betterments greater than \$5,000 are capitalized, whereas maintenance and repair costs are charged to expense as incurred. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resultant gain or loss is recorded in the statement of activities.

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the related assets. Useful lives range from 3 to 10 years for furniture, fixtures and equipment, 5 years for leasehold improvements, and 5 years for the law libraries. The building will be depreciated over a period of 30 years.

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 benefitted.

Income taxes

Legal Aid Justice Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Legal Aid Justice Center is also exempt from Virginia income taxes and, therefore, has made no provision for federal or Virginia income taxes. In addition, the Internal Revenue Service has determined that Legal Aid Justice Center is not a "private foundation" within the meaning of Section 509(a) of the Code.

Legal Aid Justice Center

Notes to Financial Statements

June 30, 2016

Note 2 - Property and equipment

A summary of property and equipment follows:

	June 30, 2016		June 30, 2015	
	Cost or Value	Accumulated Depreciation	Cost or Value	Accumulated Depreciation
Property and equipment purchased	\$ 496 208	\$ 369 280	\$ 538 073	\$ 369 031
Property and equipment donated	9 627	9 627	9 627	9 627
Land	100 000	-	100 000	-
Buildings	2 353 799	1 030 772	2 353 799	944 909
Law library, purchased	24 824	24 824	24 824	24 824
Law library, donated	<u>13 085</u>	<u>13 085</u>	<u>13 085</u>	<u>13 085</u>
	\$ <u>2 997 543</u>	\$ <u>1 447 588</u>	\$ <u>3 039 408</u>	\$ <u>1 361 476</u>

Depreciation expense for the current year was \$119,252.

Note 3 - Lease commitments

Legal Aid Justice Center has leases for offices located in Falls Church and Richmond, Virginia. Rent expense for all three offices totaled \$189,716 for 2016. The Falls Church office has a five year lease through September 30, 2019 at a current base rent of \$7,045 per month, with a 3% annual rate increase. The Richmond office has a three year lease through October 31, 2019 at a base rent of \$8,118 per month with a 2.5% annual increase and allows for two one year extensions. Future lease payments are as follows:

2017	\$ 188 063
2018	193 217
2019	198 509
2020	<u>58 755</u>
	\$ <u>638 544</u>

Note 4 - Concentration of funding

Funding received through general purpose contracts from the Legal Services Corporation of Virginia total 31% and sub-grants received from Virginia Poverty Law Center total 11% of the total funding received by LAJC.

Notes to Financial Statements

June 30, 2016

Note 5 - Temporarily restricted net assets

There are no temporarily restricted net assets as of the current year.

Note 6 - Pension plan

Legal Aid Justice Center has a pension plan which qualifies under Section 403(b) of the Internal Revenue Code, in which employees may elect to have amounts withheld from their salaries and invested in tax deferred annuities. Contributions to the plan totaled \$88,919 in 2016. Legal Aid Justice Center shall determine, in its sole discretion, the amount of employer contribution to be made to the plan.

Note 7 - Concentration of credit risk

Financial instruments which potentially subject the Corporation to concentration of credit risk consist principally of cash and unsecured receivables. Cash accounts are maintained in several financial institutions in Central Virginia. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. During the year the balance exceeds the insured amount, but management believes there is no significant credit risk for receivables because of close monitoring.

Note 8 - Donated services and property

Legal Aid Justice Center received the following donated services for the year ended June 30, 2016:

Attorney services (\$250 per hour)	\$	1 895 750
Support services (\$13 - \$250 per hour)		54 969
Law interns, paralegal - volunteer (\$75 per hour)		<u>1 111 375</u>
	\$	<u>3 062 094</u>

Note 9 - Comparative amounts

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Note 10 - Other accounts receivables

Other accounts receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Other	2 522	5 476
Miscellaneous grant funding	<u>265 370</u>	<u>173 698</u>
	<u>\$ 267 892</u>	<u>\$ 179 174</u>

Notes to Financial Statements

June 30, 2016

Note 11 - Subsequent events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through July 22, 2016 the date the financial statements were issued.

Note 12 - Note payable

Legal Aid Justice Center has a permanent loan for \$944,464 at a current interest rate of 3.12% for five years for the purchase and renovation of a building. The balance due as of June 30, 2016 was \$413,967 and as of June 30, 2015 was \$447,012. The bank will hold first deed of trust on the building as collateral. Interest expense totaled \$13,399 for the current year.

2016	\$	34 005
2017		<u>379 962</u>
	\$	<u><u>413 967</u></u>

Note 13 - Fair value measurements

Legal Aid Justice Center records fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Three levels of the fair value hierarchy are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The note payable and line of credit were measured at fair value by level one valuation.

Note 14 - Line of Credit

Legal Aid Justice Center maintains a \$350,000 secured bank line of credit dated February 15, 2015. The line has a one-year term, provisions for annual extensions, and includes a due on demand feature. The line currently matures on May 15, 2017. Interest, at the Bank's Prime Rate less .250% (4.0% at June 30, 2016), is payable monthly. The building is held as security on the line of credit. There was no balance due as of the end of the current or prior year.

Note 15 - Restricted Funding

Legal Aid Justice Center receives purpose restricted funding from Legal Services Corporation of Virginia (LSCV). LSCV funding is used in the Civil Advocacy Program which provides housing, consumer, employment and public benefits assistance. No other programs are funded by LSCV.

Accompanying Information

Legal Aid Justice Center

**Statement of Support, Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)**

	Unrestricted					Temporarily Restricted	Total 2016	Total 2015
	Legal Services	Virginia	Property					
	Corporation of Virginia	Poverty Law Center	General Funding	and Equipment	Total Unrestricted			
Support and revenue								
Grants and contracts	\$ 1,557,653	\$ 567,245	\$ 1,145,230	\$ -	\$ 3,270,128	\$ -	\$ 3,270,128	\$ 2,897,462
Local funding	-	-	641,824	-	641,824	-	641,824	649,863
Interest	-	-	275	-	275	-	275	1
Donated services and equipment	-	-	3,062,094	-	3,062,094	-	3,062,094	3,394,178
Other	-	-	1,179,088	-	1,179,088	-	1,179,088	776,457
Net assets released from restrictions:								
Expiration of time or purpose restrictions	-	-	-	-	-	-	-	-
Total support and revenue	<u>1,557,653</u>	<u>567,245</u>	<u>6,028,511</u>	<u>-</u>	<u>8,153,409</u>	<u>-</u>	<u>8,153,409</u>	<u>7,717,961</u>
Expenses								
Attorney salaries	462,311	-	943,439	-	1,405,750	-	1,405,750	1,302,797
Fringe benefits	275,424	109,088	442,148	-	826,660	-	826,660	632,189
Non-attorney legal salaries	339,355	333,467	345,001	-	1,017,823	-	1,017,823	903,259
Audit	3,167	-	5,033	-	8,200	-	8,200	8,200
Board expenses	-	-	2,112	-	2,112	-	2,112	24,628
Communication	39,246	-	66,541	-	105,787	-	105,787	53,455
Consultant fees	37,672	-	59,864	-	97,536	-	97,536	1,906
Consumables	10,783	259	16,879	-	27,921	-	27,921	235,960
Donated services and equipment	-	-	3,062,094	-	3,062,094	-	3,062,094	23,712
Equipment rental and repair	88,345	-	140,394	-	228,739	-	228,739	23,160
Fundraising	43,078	-	60,978	-	104,056	-	104,056	9,144
Insurance	9,473	-	15,055	-	24,528	-	24,528	24,039
Interest expense	-	-	14,093	-	14,093	-	14,093	114,552
Library expense	8,319	-	13,220	-	21,539	-	21,539	17,586
Litigation	15,695	-	24,942	-	40,637	-	40,637	22,535
Occupancy	112,572	-	178,896	-	291,468	-	291,468	30,869
Office dues	8,403	752	12,601	-	21,756	-	21,756	236,179
Other expenses	55,612	-	39,808	-	95,420	-	95,420	53,612
Postage	2,250	25	7,175	-	9,450	-	9,450	22,650
Recruiting	-	100	843	-	943	-	943	103,804
Reproduction	3,121	-	9,515	-	12,636	-	12,636	2,166
Subgrants	-	-	22,500	-	22,500	-	22,500	16,208
Technologies Upgrades	-	-	5,263	-	5,263	-	5,263	26,924
Training	13,753	-	21,856	-	35,609	-	35,609	3,394,178
Travel	25,004	3,500	36,235	-	64,739	-	64,739	-
Depreciation	-	-	-	119,252	119,252	-	119,252	119,185
Total expenses	<u>1,553,583</u>	<u>447,191</u>	<u>5,546,485</u>	<u>119,252</u>	<u>7,666,511</u>	<u>-</u>	<u>7,666,511</u>	<u>7,402,897</u>
Change in net assets	4,070	120,054	482,026	(119,252)	486,898	-	486,898	315,064
Net assets at beginning of year	-	-	401,151	1,230,921	1,632,072	-	1,632,072	1,317,008
Acquisition of property	(2,033)	-	(55,330)	57,363	-	-	-	-
Principle payment on note payable	-	-	33,044	(33,044)	-	-	-	-
Net assets at end of year	<u>\$ 2,037</u>	<u>\$ 120,054</u>	<u>\$ 860,891</u>	<u>\$ 1,135,988</u>	<u>\$ 2,118,970</u>	<u>\$ -</u>	<u>\$ 2,118,970</u>	<u>\$ 1,632,072</u>