

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Consolidated Financial Statements, Supplementary Schedules, and
Single Audit Report on Schedule of Expenditures of Federal Awards
January 31, 2017
LSC Recipient #805310



An Independent CPA Firm

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Financial Statements, Supplemental Schedules
and
Single Audit Report on Schedule of Expenditures of Federal Award Programs
January 31, 2017

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An Independent CPA Firm

Board of Directors
Legal Aid Society of Orange County, Inc.
Santa Ana, California

INDEPENDENT AUDITORS' REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Legal Aid Society of Orange County, Inc. (a nonprofit organization), which comprise the statement of financial position as of January 31, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Society of Orange County, Inc. as of January 31, 2017, 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.

Board of Directors
Legal Aid Society of Orange County, Inc.
Santa Ana, California
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Report on Summarized Comparative Information

We have previously audited the Legal Aid Society of Orange County Inc.'s 2016 financial statements, and our report dated April 27, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year January 31, 2016, is consistent, in all material respects, the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *supplementary schedules*, as listed in the table of contents, are presented for purposes of additional analysis as required by *LSC Audit Guide for Recipients*, and the *schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017 on our consideration of Legal Aid Society of Orange County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Aid Society of Orange County, Inc.'s internal control over financial reporting and compliance.

Gruber and Associates, Inc.

Gruber and Associates, Inc.
Newport Beach, CA
April 25, 2017

BASIC FINANCIAL STATEMENTS

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Financial Position

January 31, 2017

(with comparative totals as of January 31, 2016)

	2017	2016
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,170,368	1,177,321
Time deposit (Note 1e)	250,000	-
Client trust deposits	21	21
Grants receivable (Note 2)	610,685	464,889
Other receivables	295,046	4,285
Prepaid expenses and other assets	89,063	45,402
Total current assets	2,415,183	1,691,918
Non-current assets (Note 4):		
Land, buildings, furniture and equipment, net	5,804,402	5,842,601
Law library, net	-	-
Total non-current assets, net	5,804,402	5,842,601
Total assets	\$ 8,219,585	7,534,519
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 257,883	213,247
Client trust liability	-	-
Current portion of capital lease obligations (Note 8)	-	33,416
Current portion of mortgage notes payable (Note 6)	128,255	121,742
Accrued vacation (Note 1n)	282,345	236,342
Advance funding (Note 1k):		
Legal Services Corporation - basic grant	320,588	261,881
Legal Services Corporation - TIG grant	84,663	58,703
Other participating agencies	223,401	201,447
Total current liabilities	1,297,135	1,126,778
Long-term liabilities:		
Mortgage notes payable (Note 6)	3,357,812	3,486,055
Total long-term liabilities	3,357,812	3,486,055
Total liabilities	4,654,947	4,612,833
Net assets:		
Unrestricted:		
Designated for reserve	250,000	-
Undesignated	2,565,470	2,152,847
Total unrestricted net assets	2,815,470	2,152,847
Temporarily restricted (Note 9):		
Legal Services Corporation - grant	746,296	768,839
Other	2,872	-
Total temporarily restricted net assets	749,168	768,839
Total net assets	3,564,638	2,921,686
Total liabilities and net assets	\$ 8,219,585	7,534,519

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Activities
Year Ended January 31, 2017
(with comparative totals for the year ended January 31, 2016)

	Unrestricted	Temporarily Restricted			Totals	
		LSC	Non-LSC	Subtotal	2017	2016
Support and revenue:						
Grants (Note 2)	\$2,511,451	3,846,962	846,558	4,693,520	7,204,971	6,534,014
Technology grants- LSC TIG National	-	13,481	-	13,481	13,481	1,297
Technology revenue- ICAN	50,714	-	-	-	50,714	78,366
Investment income	495	1,102	-	1,102	1,597	424
Donated services (Note 1I)	483,860	448,519	-	448,519	932,379	803,906
Contributions	321,189	-	-	-	321,189	21,186
Special Events (net):						
Wine Festival- gross revenues of \$77,265						
less direct expenses of \$49,684	66,880	(39,299)	-	(39,299)	27,581	22,647
Voices for Justice- gross revenues of						
\$119,252 less direct expenses of \$61,410	116,843	(59,001)	-	(59,001)	57,842	36,461
Rental income	26,805	-	-	-	26,805	5,507
Derivative income	-	8,480	-	8,480	8,480	-
Referral fees and miscellaneous income	383,329	-	-	-	383,329	232,198
Subtotal support and revenues	3,961,566	4,220,244	846,558	5,066,802	9,028,368	7,736,006
Net assets released from restrictions (Note 9)	5,086,473	(4,242,787)	(843,686)	(5,086,473)	-	-
Total support and revenue	9,048,039	(22,543)	2,872	(19,671)	9,028,368	7,736,006
Expenses:						
Program services	7,108,630	-	-	-	7,108,630	6,254,322
Administrative	1,276,786	-	-	-	1,276,786	1,287,271
Total expenses	8,385,416	-	-	-	8,385,416	7,541,593
Increase (decrease) in net assets	662,623	(22,543)	2,872	(19,671)	642,952	194,413
Net assets beginning of year	2,152,847	768,839	-	768,839	2,921,686	2,727,273
Net assets at end of year	\$2,815,470	746,296	2,872	749,168	3,564,638	2,921,686

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Functional Expenses
Year Ended January 31, 2017
(with comparative totals for the year ended January 31, 2016)

	Program Services	Management & General	Totals	
			2017	2016
Personnel expenses:				
Lawyers	\$ 1,809,065	145,554	1,954,619	1,616,020
Paralegals	1,229,912	-	1,229,912	1,073,052
Other nonlawyers	526,154	594,719	1,120,873	1,056,502
Donated services (Note 1I)	932,379	-	932,379	803,906
Fringe benefits	950,381	213,199	1,163,580	1,036,261
Office rent and maintenance (Note 8)	148,978	37,245	186,223	185,306
Equipment rental	4,410	1,102	5,512	7,082
Office supplies and maintenance	146,577	36,644	183,221	214,185
Telephone	108,125	27,031	135,156	127,202
Program travel	19,663	4,916	24,579	23,597
Conference travel	32,633	8,158	40,791	47,684
Library	64,000	-	64,000	47,350
Insurance	47,481	11,870	59,351	56,233
Auditing and accounting	21,600	5,400	27,000	26,950
Dues and fees	35,419	8,855	44,274	46,004
Litigation	56,787	-	56,787	24,637
Technology grant - LSC TIG National	13,481	-	13,481	1,297
Support to Public Law Center (Notes 3 and 5)	9,900	-	9,900	10,300
Private attorney involvement (Note 5)	539,073	78,940	618,013	597,972
Interest	140,480	35,120	175,600	185,966
Other (Note 11)	172,594	43,149	215,743	255,013
	<u>7,009,092</u>	<u>1,251,902</u>	<u>8,260,994</u>	<u>7,442,519</u>
Total expenses before depreciation				
Depreciation (Note 4)	99,538	24,884	124,422	99,074
	<u>99,538</u>	<u>24,884</u>	<u>124,422</u>	<u>99,074</u>
Total expenses	<u>\$ 7,108,630</u>	<u>1,276,786</u>	<u>8,385,416</u>	<u>7,541,593</u>

See accompanying notes to financial statements.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Cash Flows

Year Ended January 31, 2017

(with comparative totals for the year ended January 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 642,952	194,413
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	124,422	99,074
Decrease (increase) in grants receivable	(145,796)	54,616
Decrease (increase) in other receivable	(290,761)	(4,285)
Decrease (increase) in prepaid expenses and other assets	(43,661)	7,625
(Decrease) increase in accounts payable and accrued liabilities	44,635	27,372
(Decrease) increase in accrued vacation	46,003	(3,599)
(Decrease) increase in advance funding - Legal Services Corporation	58,707	(31,029)
(Decrease) increase in advance funding - LSC TIG	25,960	58,703
(Decrease) increase in advance funding - Other participating agencies	21,954	(56,623)
Net cash provided by (used for) operating activities	<u>484,415</u>	<u>346,267</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment and law library	(86,222)	(428,332)
Purchase of time deposit	<u>(250,000)</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(336,222)</u>	<u>(428,332)</u>
Cash flows from financing activities:		
Principal payments on capital leases	(33,416)	(34,034)
Principal payments on mortgage notes payable	<u>(121,730)</u>	<u>(116,471)</u>
Net cash provided by (used for) financing activities	<u>(155,146)</u>	<u>(150,505)</u>
Increase (decrease) in cash and cash equivalents	(6,953)	(232,570)
Cash and cash equivalents at beginning of year	<u>1,177,321</u>	<u>1,409,891</u>
Cash and cash equivalents at end of year	<u>\$ 1,170,368</u>	<u>\$ 1,177,321</u>

Supplemental disclosures of noncash investing and capital related financing activities:

There were no noncash investing or capital related financing activities for the year ended January 31, 2017.

Supplemental disclosure of cash flow information:

Cash paid for interest expense	<u>\$ 175,600</u>	<u>\$ 185,966</u>
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See accompanying notes to financial statements.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

January 31, 2017

(1) Summary of Significant Accounting Policies

The significant accounting policies of the Legal Aid Society of Orange County, Inc. (LASOC) are presented to assist in the understanding of LASOC's financial statements. The financial statements and notes are representations of LASOC's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

(a) Organization and Sources of Revenues

Founded in 1958, Legal Aid Society of Orange County (LASOC) is a 501(c)(3) non-profit organization whose mission is to provide free civil legal services to low-income individuals and seniors and to promote equal access to the justice system through advocacy, legal counseling, innovative self-help services, in-depth legal representation, and community education. In 1984, LASOC was awarded the Legal Services Corporation contract to provide legal services in Southeast Los Angeles County. LASOC's client community consists of individuals whose incomes fall below 125% to 200% of the federal poverty threshold and those over the age of 60. LASOC's programs and services are provided throughout Orange County and Southeast Los Angeles County and are aimed at 1) providing support for the family; 2) preserving the home; 3) maintaining economic stability; 4) ensuring safety, stability and health; 5) assisting populations with special vulnerabilities; 6) continuing the delivery of legal services (including direct representation); and 7) giving advice, counsel and referrals. LASOC also provides assistance in the areas of housing and landlord/tenant Issues, government benefits, issues related to children with special education needs, consumer problems, foreclosure, and bankruptcy.

LASOC receives funding from various sources, primarily: (1) the federal Legal Services Corporation (LSC) which requires services, including general legal assistance, to be provided to the indigent, (2) the Senior Advocacy Program (Seniors) is funded by the County of Orange which requires general legal assistance to be provided to economically or socially disadvantaged senior citizens, and (3) the State Bar of California (State Bar) which permits general legal assistance to the indigent, socially disadvantaged and senior citizens.

(b) Basis of Accounting and Revenue Recognition

LASOC uses the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

(c) Financial Statement Presentation

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958 Not-for-Profit Entities*, LASOC 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.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, LASOC considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of deposits and money market funds held with several different financial institutions that at times exceed amounts covered by the insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC).

(e) Time Deposit

As of January 31, 2017, the Company owned a certificate of deposit in the amount of \$250,000. This time certificate matures in July 2017, at a rate of interest of 0.85 percent per annum. Because the term of the certificate is greater than three months, it is not included by the Company as a cash equivalent for purposes of the statement of cash flows.

(f) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Under provision of the LSC Investment Policy Guidelines adopted by the Board of Directors, authorized investments include: (1) U.S. treasury notes and bills; (2) Insured certificates of deposit; and (3) Repurchase agreements and money market funds that invest in other U.S. government securities.

(g) Land, Buildings, Furniture and Equipment, and Law Library

It is LASOC's policy to capitalize long-lived assets over \$5,000. Lesser amounts are expensed. Land, buildings, furniture and equipment, and law library are capitalized at cost. Donations of long-lived assets are recorded as contributions at their estimated fair values. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose in which case they are recorded as restricted contributions until such restriction expires. Buildings, furniture and equipment are depreciated on the straight-line method, using estimated useful lives of forty years for the buildings, three to ten years for the furniture and equipment, and three to five years on the law library software and books. Property and equipment acquired with grant or contract funds are considered to be owned by LASOC; however, the grantors retain certain interest in the equipment with respect to the use or disposition of such assets.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(h) Impairment of Long-Lived Assets

LASOC evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash-flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

(i) Fair Value of Financial Instruments

LASOC follows guidance issued by the ASC 820 *Fair Value Measurements*, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. This guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3.

Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable. Level 3 inputs are unobservable and are given the lowest priority.

LASOC's financial instruments, including cash and cash equivalents, grants receivable, other receivables, and accounts payable and accrued liabilities are carried at cost, which approximates fair value because of the short-term nature of these instruments.

(j) Restricted and Unrestricted Revenue and Support

In accordance with ASC 958-605, contributions are categorized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(j) Restricted and Unrestricted Revenue and Support (continued)

All support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Amounts received from LSC and State Bar are required to be treated as contributions and be reported as temporarily restricted net assets until eligible expenses are incurred on permissible activities. Amounts received for the Senior Advocacy Program along with various other grants are reported as exchange transactions and are recognized as the related reimbursable expenses are incurred.

(k) Advances from Funding Sources

Cash advances from third parties for services not yet performed are included as a liability. As of January 31, 2017, LASOC received advanced funding from LSC and other granting agencies in the amounts of \$405,251 and \$223,401, respectively.

(l) Donated Services

Donated services of \$932,379 for the year ended January 31, 2017 have been recorded as both revenues and program expenses and represent the approximate fair value of legal services and research, and other specialized skills provided by individuals possessing these skills, and would typically need to be purchased if not provided.

Certain other donated services in the amount of \$48,867 have not be recognized for the year ended January 31, 2017 and have been excluded from the statement of activities, since these donated services did not require specialized skills.

(m) Functional Expense Allocations

Costs of providing LASOC's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(n) Accrued Vacation

LASOC's policy is to record accumulated vacation when earned. As of January 31, 2017, the accrued vacation liability was \$282,345.

(o) Income Taxes of LASOC

LASOC is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. LASOC's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

(p) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(q) Referral Fees and Miscellaneous Income

Referral fees and miscellaneous income primarily consists of attorney referral fees and membership dues.

(r) Comparative Totals

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LASOC's financial statements for the year ended January 31, 2016 from which the summarized information was derived.

(s) Reclassifications

For comparability purposes, certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 classifications. These reclassifications have no effect on reported change in net assets.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(2) Summary of Grant Funding

A summary of LASOC's grant revenues for the year ended January 31, 2017 are summarized as follows:

LSC –Basic Grant	\$3,846,962
County of Los Angeles - CalWORKS	587,867
Health Consumer Alliance	535,802
State Bar- Equal Access and EA Partnership	520,807
State Bar -IOLTA	325,751
Title IIIB Office on Aging - Senior Advocacy	263,545
SB Community Development and Foreclosure	202,333
CAL OES	147,130
Neighborhood Legal Services–Self Help Center	136,490
Small Claims Court Orange County	115,714
LEAP	107,500
City of Irvine	100,000
IRS Low Income – Tax Payer Clinic	100,000
Rainbow services	54,227
Others*	160,843
Total	<u><u>\$7,204,971</u></u>

*LASOC received various other cost-reimbursement grants totaling \$160,843 during the year ended January 31, 2017 from the Cities of Compton, Norwalk, and Pico Rivera and various other grantors, all of which were recognized.

In addition to the grant revenues recognized above, LASOC also received technology grants from LSC and program revenue from other agencies in the amounts of \$13,481 and \$50,714, respectively, for the year ended January 31, 2017.

Grants receivable from the various granting agencies as of January 31, 2017 was \$610,685.

(3) Contracts

LASOC entered into a contract with the Public Law Center (PLC) which provided annual funds to PLC in the amount of \$9,900 (which related to private attorney involvement) for fiscal year ended January 31, 2017. LASOC also entered into contracts with Justice in Education (JIE), and Community Lawyers, Inc. (CLI) in the amounts of \$13,107 and \$11,800, respectively, during the fiscal year. LSC federal funds contributed to PLC, JIE, and CLI were \$2,178, \$2,430 and \$10,300, respectively, during the year ended January 31, 2017.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(4) Land, Buildings, Furniture and Equipment and Law Library

Land, buildings, furniture and equipment and law library consist of the following at January 31, 2017:

Land*	\$3,127,281
Leasehold improvements	2,042,831
Building	1,521,142
Furniture and equipment	1,734,238
Software (I-CAN)	1,498,893
Accumulated depreciation	<u>(4,119,983)</u>
	<u>\$5,804,402</u>
Law Library	\$ 323,795
Accumulated depreciation	<u>(323,795)</u>
	<u>\$ -</u>

* - Not depreciated

Total depreciation expenses for the year ended January 31, 2017 was \$124,422.

(5) Private Attorney Involvement and LSC Fund Net Assets

LSC requires that an amount equal to 12.5% of its current grant be utilized for Private Attorney Involvement (PAI). To meet this requirement, LASOC is involved in a private attorney program in Orange County and southeast Los Angeles in addition to its contracts with PLC, JIE, and CLI (see Note 3). LASOC's private attorney involvement requirement and the related expenses during the year ended January 31, 2017 are summarized as follows:

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(5) Private Attorney Involvement and LSC Fund Net Assets (continued)

LSC basic grant revenue recognized	\$3,846,962
	<u>x12.5%</u>
LSC PAI requirement	<u>480,870</u>
LSC PAI expenses:	
Personnel salaries (lawyers, paralegals, clerical)	212,266
Payroll taxes and employee benefits	50,436
Private attorney contracts, bankruptcy, insurance	114,932
Other PAI Activities	38,010
Support to Public Law Center	<u>2,178</u>
	<u>417,822</u>
Non-LSC fund PAI expenses:*	
Personnel salaries (lawyers, paralegals, clerical)	130,589
Public Law Center	7,722
Other PAI contracts	<u>109,790</u>
	<u>248,101</u>
Total PAI expenses	<u>665,923</u>
Net funds expended in (excess) of requirement	<u>\$ (185,053)</u>

During the year ended January 31, 2017, PAI net expenses amounted to \$185,053 in excess of the 12.5% PAI requirement.

LSC requires that it be advised of any net asset (i.e. fund balance) amount in excess of 10% of support in accordance with 45 CFR 1628.2a. In the LSC fund, LSC net assets did not exceed the 10% support requirement for the year ended January 31, 2017. For the year ended January 31, 2016, LSC net assets exceeded 10% of the support requirement by \$82,375 and were carried over to January 31, 2017 which was authorized by LSC.

*LASOC contracted with PLC, JIE, and CLI and other private attorney contracts (see Note 3). These contracts were eligible to be included in LASOC's PAI calculation.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(6) Mortgage Notes Payable

During fiscal year 2015, LASOC entered into a mortgage note payable in the amount of \$607,500 with a financial institution for the acquisition of certain real property, as well as, refinanced its three other mortgage notes with the same financial institution. As of January 31, 2017, the total mortgage notes payable for the four notes was \$3,486,067. The notes are all collateralized by first trust deeds on the four respective buildings in Compton, Norwalk, Santa Ana #1 and Santa Ana #2. Each note has a 20 year term and a fixed interest rate ranging from 4.660% to 5.010%. The notes are payable in monthly installments of principal and interest, ranging from \$2,540 to \$14,159 with all notes expiring in 2034.

Schedule principal payments on mortgage notes payable are as follows:

	<u>Compton</u>	<u>Norwalk</u>	<u>Santa Ana#1</u>	<u>Santa Ana#2</u>	<u>Totals</u>
<u>Year ending January 31:</u>					
2018	\$19,221	13,443	74,942	20,649	128,255
2019	20,221	14,093	78,560	21,723	134,597
2020	21,272	14,773	82,353	22,852	141,250
2021	22,312	15,443	86,087	23,969	147,811
2022	23,538	16,231	90,486	25,287	155,542
Thereafter	<u>411,693</u>	<u>292,740</u>	<u>1,631,909</u>	<u>442,270</u>	<u>2,778,612</u>
Totals	<u>518,257</u>	<u>366,723</u>	<u>2,044,337</u>	<u>556,750</u>	<u>3,486,067</u>
Less current portion	<u>(19,221)</u>	<u>(13,443)</u>	<u>(74,942)</u>	<u>(20,649)</u>	<u>(128,255)</u>
Long-term portion	<u>\$ 499,036</u>	<u>353,280</u>	<u>1,969,395</u>	<u>536,101</u>	<u>3,357,812</u>

(7) Line of Credit

LASOC had a bank line of credit that provided for maximum borrowings of \$250,000, secured by a second lien on real property (Santa Ana #1), at an interest rate equal to the prime rate (3.5% as of January 31, 2017) plus a 0.25% margin or the floor rate of 4%, whichever is greater. The line terminates on November 15, 2017 and there was no balance outstanding as of January 31, 2017.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(8) Lease Obligations, and Office Rent and Maintenance

Operating Leases:

LASOC entered into a non-cancelable lease agreement for equipment located at its new property in Santa Ana, CA. The term of the lease extends through August 2018 and requires minimum monthly payments of approximately \$200. LASOC also rents other equipment on a month to month basis. For the year ended January 31, 2017, rent expense for the equipment was \$4,740.

Future minimum lease payments under operating lease obligations are as follows:

Year ending January 31:

2018	\$ 4,776
2019	<u>3,184</u>
Total	\$ <u>7,960</u>

Office rent and maintenance expense of \$186,223 for the year ended January 31, 2017 included storage and facility costs, parking, and other office maintenance and repair costs and are month to month.

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets as of January 31, 2017 consisted of the following:

Restricted for:	
LSC	\$ 746,296
State Bar – Equal Access	<u>2,872</u>
Total temporarily restricted net assets	\$ <u>749,168</u>

During the year ended January 31, 2017, \$5,086,473 of temporarily restricted net assets were released to unrestricted net assets as a result of the satisfaction of grantor imposed restrictions. There were no permanently restricted net assets during the fiscal year ended January 31, 2017.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(10) Retirement Plan

LASOC has a defined contribution 401(k) profit sharing plan covering all eligible employees who have met the eligibility requirement (completed six months of service and are 18 years or older). Once eligible, participants may begin deferring a portion of their compensation on February 1 or August 1. Employees can contribute up to \$18,000 of pre-tax compensation for calendar years 2017 and 2016, and their contributions are 100% vested. Participants ages 50 or older may elect to defer additional amounts (called "catch-up" contributions). The maximum "catch-up" contribution that can be made is \$6,000 for calendar years 2017 and 2016.

The Retirement Plan is referred to as a "Safe Harbor 401(k) Plan." Employer contributions are fully vested and are referred to as Non-elective Contributions subject to certain Internal Revenue Service limitations. Eligible employees receive an annual Safe Harbor Contribution equal to 3% of their compensation. LASOC may also make a discretionary profit sharing contribution. During the year ended January 31, 2017, the Board of Directors approved a discretionary contribution of 1.5%. LASOC contributions are made monthly. Total employer contributions were \$177,573 for the year ended January 31, 2017.

(11) Other Expenses

Included in other expenses for the year ended January 31, 2017 are the following amounts:

	<u>LSC Basic Grant</u>	<u>Other Funds</u>	<u>Totals</u>
Professional contract services	\$ 11,528	69,408	80,936
Advertising/ marketing outreach	-	590	590
Work study	812	-	812
Repairs and maintenance	4,880	1,642	6,522
Publications and subscriptions	18,572	4,723	23,295
Sundry items	23,375	13,228	36,603
Taxes and license	1,790	6,546	8,336
Software license and consultation	138	5,409	5,547
Equipment rent and maintenance	9,878	7,787	17,665
Bank fees/ payroll processing	21,310	11,900	33,210
Miscellaneous expenses	<u>314</u>	<u>1,913</u>	<u>2,227</u>
Totals	<u>\$92,597</u>	<u>123,146</u>	<u>215,743</u>

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(12) Grant Funding Concentrations and Uncertainties

LASOC has received significant funding from LSC. LSC funding represented approximately 48% of LASOC's total support and revenues (less donated services) for the year ended January 31, 2017. Due to potential reductions in federal funding to LSC, future funding to LASOC may be reduced. Although management is reviewing alternatives for continuing operations, if grants are reduced, any reduction may impact the future operations of LASOC. LASOC received a grant contract from LSC for funding through December 31, 2017 in the amount of \$3,847,035. Additionally, it is the intent of LASOC to bid for LSC funding through December 31, 2018. Actual funding amounts are dependent upon amounts allocated by the United States Congress to LSC. No amounts have been recorded as pledges receivable for any amount of grant awards from LSC.

LASOC also receives multi-year grant funding from various sources which are recorded in the period received or pledged. However, expenditures related to those grants can occur over several years. As a result, timing differences are created which can have an affect on changes in net assets.

(13) Commitments and Other Contingencies

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against LASOC for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

LASOC is also subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the LASOC's financial statements.

(14) Compliance with Laws and Regulations

By accepting subrecipient funds from LSC and other federal grants, LASOC is required to comply with certain laws and regulations provided for in the *Code of Federal Regulations (45 CFR Part 1600) – Legal Services Corporation Act* established by the United States Congress and 2 CFR 200, respectively. Management believes that it has complied with such laws and regulations.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(15) Subsequent Events

Management has evaluated subsequent events through April 25, 2017, the date the financial statements were available to be issued.

SUPPLEMENTARY SCHEDULES

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Combining Schedule of Financial Position
January 31, 2017
(With comparative totals as of January 31, 2016)

	Legal Services Corporation	Senior Advocacy Program	State Bar of California	
			IOLTA	Equal Access
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 833,174	-	62,690	-
Time deposit	250,000	-	-	-
Client trust deposits	21	-	-	-
Grants receivable	6,124	44,652	-	55,433
Other receivable	34,453	87	-	-
Interfund receivable	234,056	-	-	-
Prepaid expenses and other assets	70,298	-	5,072	-
Total current assets	1,428,126	44,739	67,762	55,433
Non-current assets:				
Land, buildings, furniture and equipment, net	77,917	-	-	-
Law library, net	-	-	-	-
Total non-current assets	77,917	-	-	-
Total assets	\$ 1,506,043	44,739	67,762	55,433
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 159,921	5,944	11,944	8,770
Client trust liability	-	-	-	-
Interfund payable	-	13,853	-	30,121
Current portion of capital lease obligations	-	-	-	-
Current portion of mortgage notes payable	-	-	-	-
Accrued vacation	194,575	19,922	9,903	13,670
Advance funding:				
LSC - Basic grant	320,588	-	-	-
LSC - TIG grant	84,663	-	-	-
Other participating granting agencies	-	-	57,337	-
Total current liabilities	759,747	39,719	79,184	52,561
Long-term liabilities:				
Mortgage notes payable	-	-	-	-
Total long-term liabilities	-	-	-	-
Total liabilities	759,747	39,719	79,184	52,561
Net assets:				
Unrestricted:				
Designated for reserve	-	-	-	-
Undesignated	-	5,020	(11,422)	-
Temporarily restricted	746,296	-	-	2,872
Total net assets	746,296	5,020	(11,422)	2,872
Total liabilities and net assets	\$ 1,506,043	44,739	67,762	55,433

(continued)

(continued)

	Legal Aid Society			Totals	
	General and Health Consumer Action Center	Building	Eliminations	2017	2016
	<u>Assets</u>				
Current assets:					
Cash and cash equivalents	\$ 274,504	-	-	1,170,368	1,177,321
Time deposit	-	-	-	250,000	-
Client trust deposits	-	-	-	21	21
Grants receivable	504,476	-	-	610,685	464,889
Other receivable	260,506	-	-	295,046	4,285
Interfund receivable	119,900	-	(353,956)	-	-
Prepaid expenses and other assets	4,652	9,041	-	89,063	45,402
Total current assets	1,164,038	9,041	(353,956)	2,415,183	1,691,918
Non-current assets:					
Land, buildings, furniture and equipment, net	12,921	5,713,564	-	5,804,402	5,842,601
Law library, net	-	-	-	-	-
Total non-current assets	12,921	5,713,564	-	5,804,402	5,842,601
Total assets	1,176,959	5,722,605	(353,956)	8,219,585	7,534,519
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable and accrued liabilities	64,147	7,157	-	257,883	213,247
Client trust liability	-	-	-	-	-
Interfund payable	-	309,982	(353,956)	-	-
Current portion of capital lease obligations	-	-	-	-	33,416
Current portion of mortgage notes payable	-	128,255	-	128,255	121,742
Accrued vacation	44,275	-	-	282,345	236,342
Advance funding:					
LSC - Basic grant	-	-	-	320,588	261,881
LSC - TIG grant	-	-	-	84,663	58,703
Other participating granting agencies	166,064	-	-	223,401	201,447
Total current liabilities	274,486	445,394	(353,956)	1,297,135	1,126,778
Long-term liabilities:					
Mortgage notes payable	-	3,357,812	-	3,357,812	3,486,055
Total long-term liabilities	-	3,357,812	-	3,357,812	3,486,055
Total liabilities	274,486	3,803,206	(353,956)	4,654,947	4,612,833
Net assets:					
Unrestricted:					
Designated for reserve	250,000	-	-	250,000	-
Undesignated	652,473	1,919,399	-	2,565,470	2,152,847
Temporarily restricted	-	-	-	749,168	768,839
Total net assets	902,473	1,919,399	-	3,564,638	2,921,686
Total liabilities and net assets	\$ 1,176,959	5,722,605	(353,956)	8,219,585	7,534,519

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Combining Schedule of Support, Revenues, Expenses, and Changes in Net Assets
Year Ended January 31, 2017

(With comparative totals for the year ended January 31, 2016)

	Legal Services Corporation	Senior Advocacy Program	State Bar of California IOLTA	Equal Access
Support and revenue:				
Grants	\$ 3,846,962	263,545	325,751	520,807
Technology grants- LSC TIG National	13,481	-	-	-
Technology revenue- ICAN	-	-	-	-
Investment income	1,102	-	-	-
Donated services	448,519	72,104	-	-
Contributions	-	-	-	-
Special Events (net):				
Wine Festival- gross revenues of \$77,265 less direct expenses of \$49,684	(39,299)	-	-	-
Voices for Justice- gross revenues of \$119,252 less direct expenses of \$61,410	(59,001)	-	-	-
Rental income	-	-	-	-
Derivative income	8,480	-	-	-
Referral fees and miscellaneous income	-	-	-	-
Total support and revenue	<u>4,220,244</u>	<u>335,649</u>	<u>325,751</u>	<u>520,807</u>
Personnel expenses:				
Lawyers	729,889	117,674	44,720	145,629
Paralegals	557,511	49,247	54,376	104,392
Other nonlawyers	717,983	21,885	50,991	44,347
Donated services	448,519	72,104	-	-
Payroll taxes and employee benefits	545,981	55,439	40,081	77,439
Total personnel expenses	<u>2,999,883</u>	<u>316,349</u>	<u>190,168</u>	<u>371,807</u>
Other expenses:				
Office rent and maintenance	332,261	-	28,390	23,532
Equipment rental	4,223	-	165	173
Office supplies and equipment	127,540	622	4,493	5,178
Telephone	100,379	-	3,293	4,171
Program travel	17,752	-	865	307
Conference travel	34,444	-	969	-
Library	52,974	2,057	1,725	2,461
Insurance	23,184	-	1,457	2,006
Auditing and accounting	16,621	-	1,855	2,814
Dues and fees	12,074	-	25,131	391
Litigation	27,322	-	1,287	-
Depreciation	4,838	-	-	-
Technology grant - LSC TIG National	13,481	-	-	-
Support to Public Law Center	2,178	-	7,722	-
Private attorney involvement	377,634	15,926	51,075	91,229
Interest	3,402	-	-	-
Other	92,597	695	2,622	1,909
Total other expenses	<u>1,242,904</u>	<u>19,300</u>	<u>131,049</u>	<u>134,171</u>
Total expenses	<u>4,242,787</u>	<u>335,649</u>	<u>321,217</u>	<u>505,978</u>
Increase (decrease) in net assets	(22,543)	-	4,534	14,829
Net assets at beginning of year	<u>768,839</u>	<u>5,020</u>	<u>(15,956)</u>	<u>(11,957)</u>
Net assets at end of year	<u>\$ 746,296</u>	<u>5,020</u>	<u>(11,422)</u>	<u>2,872</u>

(continued)

(continued)

	Legal Aid Society			Totals	
	General and Health Consumer Action Center	Building	Eliminations	2017	2016
Support and revenue:					
Grants	\$ 2,247,906	-	-	7,204,971	6,534,014
Technology grants- LSC TIG National	-	-	-	13,481	1,297
Technology revenue- ICAN	50,714	-	-	50,714	78,366
Investment income	495	-	-	1,597	424
Donated services	411,756	-	-	932,379	803,906
Contributions	321,189	-	-	321,189	21,186
Special Events (net):					
Wine Festival- gross revenues of \$77,265 less direct expenses of \$49,684	66,880	-	-	27,581	22,647
Voices for Justice- gross revenues of \$119,252 less direct expenses of \$61,410	116,843	-	-	57,842	36,461
Rental income - interfund	26,805	512,286	(512,286)	26,805	5,507
Derivative income	-	-	-	8,480	-
Referral fees and miscellaneous income	383,329	-	-	383,329	232,198
Total support and revenue	<u>3,625,917</u>	<u>512,286</u>	<u>(512,286)</u>	<u>9,028,368</u>	<u>7,736,006</u>
Personnel expenses:					
Lawyers	916,707	-	-	1,954,619	1,616,020
Paralegals	464,386	-	-	1,229,912	1,073,052
Other nonlawyers	285,667	-	-	1,120,873	1,056,502
Donated services	411,756	-	-	932,379	803,906
Payroll taxes and employee benefits	444,640	-	-	1,163,580	1,036,261
Total personnel expenses	<u>2,523,156</u>	<u>-</u>	<u>-</u>	<u>6,401,363</u>	<u>5,585,741</u>
Other expenses:					
Office rent and maintenance	148,933	165,393	(512,286)	186,223	185,306
Equipment rental	951	-	-	5,512	7,082
Office supplies and equipment	39,482	5,906	-	183,221	214,185
Telephone	27,313	-	-	135,156	127,202
Program travel	5,655	-	-	24,579	23,597
Conference travel	5,378	-	-	40,791	47,684
Library	4,783	-	-	64,000	47,350
Insurance	15,513	17,191	-	59,351	56,233
Auditing and accounting	5,710	-	-	27,000	26,950
Dues and fees	6,523	155	-	44,274	46,004
Litigation	28,178	-	-	56,787	24,637
Depreciation	4,744	114,840	-	124,422	99,074
Technology grant - LSC TIG National	-	-	-	13,481	1,297
Support to Public Law Center	-	-	-	9,900	10,300
Private attorney involvement	82,149	-	-	618,013	597,972
Interest	-	172,198	-	175,600	185,966
Other	111,693	6,227	-	215,743	255,013
Total other expenses	<u>487,005</u>	<u>481,910</u>	<u>(512,286)</u>	<u>1,984,053</u>	<u>1,955,852</u>
Total expenses	<u>3,010,161</u>	<u>481,910</u>	<u>(512,286)</u>	<u>8,385,416</u>	<u>7,541,593</u>
Increase (decrease) in net assets	615,756	30,376	-	642,952	194,413
Net assets at beginning of year	<u>286,717</u>	<u>1,889,023</u>	<u>-</u>	<u>2,921,686</u>	<u>2,727,273</u>
Net assets at end of year	<u>\$ 902,473</u>	<u>1,919,399</u>	<u>-</u>	<u>3,564,638</u>	<u>2,921,686</u>

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds

Year Ended January 31, 2017

(With comparative totals for the year ended January 31, 2016)

	Basic Field					Totals	
	Grant	Carryover*	PAI	TIG	Property	2017	2016
Support and revenue:							
Grants	\$3,846,962	-	-	-	-	3,846,962	3,542,554
Technology grants- LSC TIG National	-	-	-	13,481	-	13,481	1,297
Technology grants- ICAN	-	-	-	-	-	-	-
Investment income	1,102	-	-	-	-	1,102	193
Donated services	-	-	448,519	-	-	448,519	359,697
Contributions	-	-	-	-	-	-	-
Rental income - interfund	-	-	-	-	-	-	-
Special event- Wine Festival (net)	(39,299)	-	-	-	-	(39,299)	-
Special event- Voices for Justice (net)	(59,001)	-	-	-	-	(59,001)	-
Derivative income	8,480	-	-	-	-	8,480	-
Referral fees and miscellaneous income	-	-	-	-	-	-	-
Total support and revenue	<u>3,758,244</u>	<u>-</u>	<u>448,519</u>	<u>13,481</u>	<u>-</u>	<u>4,220,244</u>	<u>3,903,741</u>
Personnel expenses:							
Lawyers	696,856	33,033	100,044	1,898	-	831,831	643,805
Paralegals	527,236	30,275	68,536	-	-	626,047	455,550
Other nonlawyers	717,983	-	43,686	-	-	761,669	680,826
Donated services	-	-	448,519	-	-	448,519	359,697
Payroll taxes and employee benefits	527,551	18,430	50,436	438	-	596,855	496,243
Total personnel expenses	<u>2,469,626</u>	<u>81,738</u>	<u>711,221</u>	<u>2,336</u>	<u>-</u>	<u>3,264,921</u>	<u>2,636,121</u>
Other expenses:							
Office rent and maintenance	316,462	-	15,799	-	-	332,261	376,085
Equipment rental	4,020	-	203	-	-	4,223	4,665
Office supplies and equipment	120,309	-	7,231	-	-	127,540	111,342
Telephone	95,445	-	4,934	-	-	100,379	68,229
Program travel	17,115	637	-	-	-	17,752	15,169
Conference travel	34,444	-	-	-	-	34,444	32,838
Library	52,974	-	-	-	-	52,974	30,769
Insurance	22,071	-	1,113	-	-	23,184	21,756
Auditing and accounting	15,823	-	798	-	-	16,621	17,059
Dues and fees	12,074	-	-	-	-	12,074	11,136
Litigation	27,322	-	-	-	-	27,322	22,777
Support to Public Law Center	-	-	2,178	-	-	2,178	1,325
Private attorney involvement	-	-	114,932	-	-	114,932	137,575
Interest	3,402	-	-	-	-	3,402	2,782
Depreciation	-	-	-	-	4,838	4,838	2,671
Other	84,665	-	7,932	11,145	-	103,742	190,129
Total other expenses	<u>806,126</u>	<u>637</u>	<u>155,120</u>	<u>11,145</u>	<u>4,838</u>	<u>977,866</u>	<u>1,046,307</u>
Total expenses	<u>3,275,752</u>	<u>82,375</u>	<u>866,341</u>	<u>13,481</u>	<u>4,838</u>	<u>4,242,787</u>	<u>3,682,428</u>
Increase (decrease) in net assets	482,492	(82,375)	(417,822)	-	(4,838)	(22,543)	221,313
Other changes in net assets/ cash inflows (outflows):							
PAI	(417,822)	-	417,822	-	-	-	-
Purchase of property, equipment and software	(34,667)	-	-	-	34,667	-	-
Payment of debt principal	(33,416)	-	-	-	33,416	-	-
Transfer of proceeds from / returned to LSC	-	-	-	-	-	-	-
Total changes in net assets	(3,413)	(82,375)	-	-	63,245	(22,543)	221,313
LSC Net assets:							
LSC Net assets at beginning of year	354,246	82,375	-	-	14,672	451,293	229,980
LSC Net assets at end of year	<u>\$ 350,833</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>77,917</u>	<u>428,750</u>	<u>451,293</u>

*- LSC carryover funds were spent prior to using basic grant award funds for fiscal year ending January 31, 2017.

**SINGLE AUDIT REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**



An Independent CPA Firm

Board of Directors
Legal Aid Society of Orange County, Inc.
Santa Ana, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Legal Aid Society of Orange County, Inc. (LASOC), as of and for the year ended January 31, 2017, and the related notes to the financial statements, which collectively comprise LASOC's basic financial statements, and have issued our report thereon dated April 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LASOC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LASOC's internal control. Accordingly, we do not express an opinion on the effectiveness of LASOC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LASOC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations provided for in the *Code of Federal Regulations (45 CFR Part 1600) – Legal Services Corporation Act* established by the United States Congress. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, California
April 25, 2017



An Independent CPA Firm

Board of Directors
Legal Aid Society of Orange County, Inc.
Santa Ana, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited the Legal Aid Society of Orange County, Inc.'s (LASOC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of LASOC's major federal programs for the year ended January 31, 2017. LASOC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LASOC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Code of Federal Regulations (45 CFR Part 1600) – Legal Services Corporation Act*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LASOC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LASOC's compliance.

Opinion on Each Major Federal Program

In our opinion, LASOC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2017.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of LASOC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LASOC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LASOC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gruber and Associates, Inc.

Gruber and Associates, Inc.
Newport Beach, California
April 25, 2017

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Preliminary Schedule of Expenditures of Federal Awards
Year Ended January 31, 2017

Federal Grantor Program Title/ Pass-through Grantor	Federal CFDA Number	Program Identification Number	Grant Period	Total Award	Unearned Revenue Balance 1/31/2016	Current Year Funding	Unearned Revenue Balance 1/31/2017	Payments to Subrecipients
Major Program								
Legal Services Corporation - pass-through program:								
Legal Services Corporation for low income	09.805310	805310	01/01/2016 - 12/31/2016	\$ 3,846,958	\$ 320,584	\$ 3,526,374	\$ -	\$ 14,908
Legal Services Corporation for low income	09.805310	805310	01/01/2017 - 12/31/2017	3,847,035	-	320,588	320,588	-
Subtotal - Legal Services Corporation for low income					<u>320,584</u>	<u>3,846,962</u>	<u>320,588</u>	<u>14,908</u>
Technology Initiative Grant -TIG/ EITC	09.805310	15054	10/01/2015 - 03/31/2019	152,200	-	13,481	45,756	-
Subtotal - Legal Services Corporation					<u>320,584</u>	<u>3,860,443</u>	<u>366,344</u>	<u>14,908</u>
U.S. Department of Health and Human Services:								
Passed through:								
Special Programs for the Aging-Title IIIB - Supportive Services and Senior Centers:								
County of Orange Community Services Agency	93.044	35	07/01/2015 - 06/30/2016	272,405	-	114,047	-	-
County of Orange Community Services Agency	93.044	35	07/01/2016 - 06/30/2017	262,690	-	149,498	-	-
Subtotal-Special Programs for the Aging-Title IIIB					<u>-</u>	<u>263,545</u>	<u>-</u>	<u>-</u>
State of California, Community and Senior Services of Los Angeles County:								
CalWORKs - Domestic Violence Supportive Services	93.558	SSC-000026	07/01/2015 - 06/30/2016	587,867	-	244,945	-	-
CalWORKs - Domestic Violence Supportive Services	93.558	SSC-000026	07/01/2016 - 06/30/2017	587,867	-	342,922	-	-
Subtotal - CalWORKs - Domestic Violence Supportive Services					<u>-</u>	<u>587,867</u>	<u>-</u>	<u>-</u>
Subtotal -U.S. Department of Health and Human Services					<u>-</u>	<u>851,412</u>	<u>-</u>	<u>-</u>
U.S. Department of Housing and Urban Development:								
Community Development Block Grants Cluster - pass-through:								
City of Norwalk FY 16/17	14.218	B-11-MC-06-0524	07/01/2014 - 06/30/2015	11,000	-	6,417	-	-
City of Norwalk FY 15/16	14.218	B-11-MC-06-0524	07/01/2015 - 06/30/2016	11,000	-	4,583	-	-
City of Compton FY 16/17	14.218	B-11-MC-06-0524	07/01/2014 - 06/30/2015	23,000	-	10,500	-	-
City of Compton FY 15/16	14.218	B-11-MC-06-0524	07/01/2015 - 06/30/2016	18,000	-	7,500	-	-
Subtotal - Community Development Block Grants Cluster					<u>-</u>	<u>29,000</u>	<u>-</u>	<u>-</u>
Housing Opportunities Collaborative -pass through:								
Housing Counseling Assistance subgrant	14.169	HC15-2-0011-032	07/01/2015 - 03/31/2016	20,000	-	6,319	-	-
Subtotal -U.S. Department of Housing and Urban Development					<u>-</u>	<u>35,319</u>	<u>-</u>	<u>-</u>
U.S. Department of Treasury:								
Internal Revenue Service:								
Low income tax	21.008	15LITC0033-02-0	01/01/2016 - 12/31/2016	100,000	-	91,667	-	-
Low income tax	21.008	16LITC0033-02-0	01/01/2017 - 12/31/2017	100,000	-	8,333	-	-
Subtotal- Low income tax					<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Neighborhood Reinvestment Corporation Act:								
Pass-through:								
National Foreclosure Mitigation Counseling Program	21.000	PL112-1095X135	various	409,130	-	24,417	-	-
Rural Community Assistance Corporation	21.000	PL113-235X1350	07/01/2016-6/30/2017	17,820	-	8,979	-	-
Subtotal - Neighborhood Reinvestment Corporation Act					<u>-</u>	<u>33,396</u>	<u>-</u>	<u>-</u>
Subtotal - U.S. Department of Treasury					<u>-</u>	<u>133,396</u>	<u>-</u>	<u>-</u>
U.S. Department of Justice:								
Rainbow Services LTD-pass through:								
Office on violence against women	16.013	NA	10/1/2013-09/30/2016	240,000	-	54,227	-	-
Cal OES - pass through:								
Legal Assistance for Victims	16.524	NA	7/1/2016-6/30/2018	400,000	-	116,667	-	-
Legal Assistance for Victims	16.524	NA	10/1/2016-9/30/2018	200,000	-	31,194	-	-
Subtotal - Legal Assistance for Victims					<u>-</u>	<u>147,860</u>	<u>-</u>	<u>-</u>
Subtotal - U.S. Department of Justice					<u>-</u>	<u>202,087</u>	<u>-</u>	<u>-</u>
Total Federal Award Expenditures					<u>\$ 320,584</u>	<u>\$ 5,082,657</u>	<u>\$ 366,344</u>	<u>\$ 14,908</u>

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Schedule of Expenditures of Federal Awards

January 31, 2017

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Legal Aid Society of Orange County, Inc. (LASOC) that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency and expended, as well as federal funds received indirectly by LASOC from a non-federal agency and expended. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenses in excess of the maximum federal reimbursement authorized or the portion of program expenses that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Expenditures reported include any property or equipment acquisitions incurred under the Federal program.

(c) Subrecipients

Payments of federal funds were made to the following subrecipients for the year ended January 31, 2017:

	LSC
	<u>CFDA#09.805310</u>
Public Law Center	\$ 2,178
Justice in Education	2,430
Community Lawyers, Inc	<u>10,300</u>
Total	<u>\$14,908</u>

(d) De Minimus Indirect Cost Rate

The entity did not elect to use the 10% de minimus indirect cost rate.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Schedule of Findings and Questioned Costs

Year ended January 31, 2017

Summary of Auditors' Results

A) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

1. An unmodified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control nor were there any significant deficiencies.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.

(B) Findings and Questioned Costs for Federal Awards as Defined in 2 CFR 200.515(d)

4. There were no material weaknesses or other significant deficiencies in internal control over federal major programs of the auditee.
5. An unmodified report was issued by the auditors on compliance for federal major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under 2 CFR 200.515(d)
7. The major program of the auditee was the Legal Services Corporation Program, CFDA No. 09.805310.
8. The dollar threshold used to distinguish Type A and Type B programs was \$750,000, 2 CFR 200.518 (b) (1).
9. The auditee was not considered a low risk auditee as defined by 2 CFR 200.518 for the year ended January 31, 2017 for purposes of determining major programs.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Summary Schedule of Prior Audit Findings

Year ended January 31, 2017

There were no findings reported in the single audit report for the year ended January 31, 2016.