

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Financial Statements, Supplementary Schedules,
and
Single Audit Report on Schedule of Expenditures of
Federal Awards
January 31, 2018
LSC Recipient #805310

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, 2018

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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, 2018, 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, 2018, 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 2017 financial statements, and our report dated April 25, 2017, 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, 2017, 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 30, 2018 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 30, 2018

BASIC FINANCIAL STATEMENTS

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Financial Position

January 31, 2018

(with comparative totals as of January 31, 2017)

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 913,972	1,170,368
Time deposits (Note 1e)	1,037,000	250,000
Client trust deposits	21	21
Grants receivable (Note 2)	547,373	610,685
Other receivables	73,447	295,046
Prepaid expenses and other assets	<u>58,188</u>	<u>89,063</u>
Total current assets	<u>2,630,001</u>	<u>2,415,183</u>
Non-current assets (Note 4):		
Land, buildings, furniture and equipment, net	5,674,133	5,804,402
Law library, net	<u>-</u>	<u>-</u>
Total non-current assets, net	<u>5,674,133</u>	<u>5,804,402</u>
Total assets	<u>\$ 8,304,134</u>	<u>8,219,585</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 254,970	257,883
Client trust liability	21	-
Current portion of mortgage notes payable (Note 6)	134,597	128,255
Accrued vacation (Note 1n)	257,825	282,345
Advance funding (Note 1k):		
Legal Services Corporation - basic grant	322,570	320,588
Legal Services Corporation - TIG grant	34,135	84,663
Other participating agencies	<u>188,739</u>	<u>223,401</u>
Total current liabilities	<u>1,192,857</u>	<u>1,297,135</u>
Long-term liabilities:		
Mortgage notes payable (Note 6)	<u>3,223,221</u>	<u>3,357,812</u>
Total long-term liabilities	<u>3,223,221</u>	<u>3,357,812</u>
Total liabilities	<u>4,416,078</u>	<u>4,654,947</u>
Net assets:		
Unrestricted:		
Designated for reserve	250,000	250,000
Undesignated	<u>2,959,117</u>	<u>2,799,526</u>
Total unrestricted net assets	<u>3,209,117</u>	<u>2,815,470</u>
Temporarily restricted (Note 9):		
Legal Services Corporation - grant	678,939	512,240
Other	<u>-</u>	<u>2,872</u>
Total temporarily restricted net assets	<u>678,939</u>	<u>749,168</u>
Total net assets	<u>3,888,056</u>	<u>3,564,638</u>
Total liabilities and net assets	<u>\$ 8,304,134</u>	<u>8,219,585</u>

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Activities
Year Ended January 31, 2018
(with comparative totals for the year ended January 31, 2017)

	Unrestricted	Temporarily Restricted			Totals	
		LSC	Non-LSC	Subtotal	2018	2017
Support and revenue:						
Grants (Note 2)	\$ 2,656,691	3,853,401	1,021,370	4,874,771	7,531,462	7,204,971
Technology grants- LSC TIG National	-	56,767	-	56,767	56,767	13,481
Technology revenue- ICAN	-	-	-	-	-	50,714
Leadership grant	-	2,938	-	2,938	2,938	-
Investment income	4,430	2,925	-	2,925	7,355	1,597
Donated services (Note 1I)	329,115	458,266	-	458,266	787,381	932,379
Contributions	109,836	-	-	-	109,836	321,189
Special Events (net):						
Wine festival	-	-	-	-	-	27,581
Voices for Justice- gross revenues of \$140,250 less direct expenses of \$90,270	133,975	(83,995)	-	(83,995)	49,980	57,842
Rental income	22,498	-	-	-	22,498	26,805
Derivative income	-	-	-	-	-	8,480
Gain (loss) on sale of assets	-	(459)	-	(459)	(459)	-
Referral fees and miscellaneous income	<u>122,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,549</u>	<u>383,329</u>
Subtotal support and revenues	3,379,094	4,289,843	1,021,370	5,311,213	8,690,307	9,028,368
Net assets released from restrictions (Note 9)	<u>5,147,386</u>	<u>(4,123,144)</u>	<u>(1,024,242)</u>	<u>(5,147,386)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>8,526,480</u>	<u>166,699</u>	<u>(2,872)</u>	<u>163,827</u>	<u>8,690,307</u>	<u>9,028,368</u>
Expenses:						
Program services	6,950,285	-	-	-	6,950,285	7,090,683
Administrative	<u>1,416,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,416,604</u>	<u>1,294,733</u>
Total expenses	<u>8,366,889</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,366,889</u>	<u>8,385,416</u>
Increase (decrease) in net assets	159,591	166,699	(2,872)	163,827	323,418	642,952
Net assets beginning of year (Note 15)	<u>3,049,526</u>	<u>512,240</u>	<u>2,872</u>	<u>515,112</u>	<u>3,564,638</u>	<u>2,921,686</u>
Net assets at end of year	<u>\$ 3,209,117</u>	<u>678,939</u>	<u>-</u>	<u>678,939</u>	<u>3,888,056</u>	<u>3,564,638</u>

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Functional Expenses
Year Ended January 31, 2018
(with comparative totals for the year ended January 31, 2017)

	Program Services	Management & General	Totals	
			2018	2017
Personnel expenses:				
Lawyers	\$ 1,736,946	149,419	1,886,365	1,954,619
Paralegals	1,246,885	-	1,246,885	1,229,912
Other nonlawyers	334,837	697,721	1,032,558	1,120,873
Donated services (Note 1I)	787,381	-	787,381	932,379
Fringe benefits	988,402	238,664	1,227,066	1,163,580
Office rent and maintenance (Note 8)	135,404	30,981	166,385	186,223
Equipment rental	3,700	847	4,547	5,512
Office supplies and maintenance	133,009	32,158	165,167	183,221
Telephone	179,599	41,093	220,692	135,156
Program travel	20,157	4,612	24,769	24,579
Conference travel	39,477	9,032	48,509	40,791
Library	69,820	-	69,820	64,000
Insurance	66,562	15,230	81,792	59,351
Auditing and accounting	22,786	5,214	28,000	27,000
Dues and fees	47,396	10,844	58,240	44,274
Litigation	24,339	-	24,339	56,787
Technology grant - LSC TIG National	56,767	-	56,767	13,481
Support to Public Law Center (Notes 3 and 5)	13,031	-	13,031	9,900
Private attorney involvement (Note 5)	581,684	75,059	656,743	618,013
Interest	134,830	30,849	165,679	175,600
Other (Note 11)	212,058	48,519	260,577	215,743
	<u>6,835,070</u>	<u>1,390,242</u>	<u>8,225,312</u>	<u>8,260,994</u>
Total expenses before depreciation				
Depreciation (Note 4)	<u>115,215</u>	<u>26,362</u>	<u>141,577</u>	<u>124,422</u>
Total expenses	<u>\$ 6,950,285</u>	<u>1,416,604</u>	<u>8,366,889</u>	<u>8,385,416</u>

See accompanying notes to financial statements.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Cash Flows

Year Ended January 31, 2018

(with comparative totals for the year ended January 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 323,418	642,952
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	141,577	124,422
(Gain) Loss on sale of assets	459	-
Decrease (increase) in grants receivable	63,312	(145,796)
Decrease (increase) in other receivable	221,599	(290,761)
Decrease (increase) in prepaid expenses and other assets	30,875	(43,661)
(Decrease) increase in accounts payable and accrued liabilities	4,402	44,635
(Decrease) increase in accrued vacation	(24,520)	46,003
(Decrease) increase in advance funding - Legal Services Corporation	2,003	58,707
(Decrease) increase in advance funding - LSC TIG	(50,528)	25,960
(Decrease) increase in advance funding - Other participating agencies	<u>(34,662)</u>	<u>21,954</u>
Net cash provided by (used for) operating activities	<u>677,935</u>	<u>484,415</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment and law library	(19,082)	(86,222)
Purchase of time deposits	<u>(787,000)</u>	<u>(250,000)</u>
Net cash provided by (used for) investing activities	<u>(806,082)</u>	<u>(336,222)</u>
Cash flows from financing activities:		
Principal payments on capital leases	-	(33,416)
Principal payments on mortgage notes payable	<u>(128,249)</u>	<u>(121,730)</u>
Net cash provided by (used for) financing activities	<u>(128,249)</u>	<u>(155,146)</u>
Increase (decrease) in cash and cash equivalents	(256,396)	(6,953)
Cash and cash equivalents at beginning of year	<u>1,170,368</u>	<u>1,177,321</u>
Cash and cash equivalents at end of year	<u>\$ 913,972</u>	<u>\$ 1,170,368</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, 2018.

Supplemental disclosure of cash flow information:

Cash paid for interest expense	<u>\$ 165,679</u>	<u>\$ 175,600</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, 2018

(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, 2018, the Company owned certificate of deposits totaling \$1,037,000. The time certificates mature starting in February 2018 through October 2018, at rates of interest ranging from 1 to 1.6 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, 2018, LASOC received advanced funding from LSC , LSC TIG, and other granting agencies in the amounts of \$322,570, \$34,135, and \$188,739, respectively.

(l) Donated Services

Donated services of \$787,381 for the year ended January 31, 2018 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 \$46,691 have not be recognized for the year ended January 31, 2018 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, 2018, the accrued vacation liability was \$257,825.

(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 2017, 2016, and 2015 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, 2017 from which the summarized information was derived.

(s) Reclassifications

For comparability purposes, certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 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, 2018 are summarized as follows:

LSC –Basic Grant	\$3,853,401
County of Los Angeles - CalWORKS	587,867
Health Consumer Alliance	458,335
State Bar- Equal Access and EA Partnership	675,479
State Bar -IOLTA	345,891
Title IIIB Office on Aging - Senior Advocacy	256,409
SB Community Development and Foreclosure	287,750
CAL OES	301,956
Neighborhood Legal Services–Self Help Center	140,850
Small Claims Court Orange County	124,102
LEAP	68,750
City of Irvine	100,000
IRS Low Income – Tax Payer Clinic	100,000
Others*	230,672
Total	<u><u>\$7,531,462</u></u>

*LASOC received various other cost-reimbursement grants totaling \$230,672 during the year ended January 31, 2018 from the Cities of Compton and Norwalk, and various other grantors, all of which were recognized.

In addition to the grant revenues recognized above, LASOC also received technology grants from LSC in the amount of \$56,767 for the year ended January 31, 2018.

Grants receivable from the various granting agencies as of January 31, 2018 was \$547,373.

(3) Contracts

LASOC entered into a contract with the Public Law Center (PLC) which provided annual funds to PLC in the amount of \$13,031 (which related to private attorney involvement) for fiscal year ended January 31, 2018. LASOC also entered into contracts with Justice in Education (JIE), and Community Lawyers, Inc. (CLI) in the amounts of \$10,572 and \$11,500, respectively, during the fiscal year. LSC federal funds contributed to PLC, JIE, and CLI were \$4,086, \$1,485 and \$2,187, respectively, during the year ended January 31, 2018.

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, 2018:

Land*	\$3,127,281
Leasehold improvements	2,052,098
Building	1,521,142
Furniture and equipment	1,735,025
Software (I-CAN)	1,498,893
Accumulated depreciation	<u>(4,260,306)</u>
	<u>\$5,674,133</u>
Law Library	\$ 323,795
Accumulated depreciation	<u>(323,795)</u>
	<u>\$ -.</u>

* - Not depreciated

Total depreciation expenses for the year ended January 31, 2018 was \$141,577.

(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, 2018 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	\$3,853,401
	<u>x12.5%</u>
LSC PAI requirement	<u>481,675</u>
LSC PAI expenses:	
Personnel salaries (lawyers, paralegals, clerical)	208,592
Payroll taxes and employee benefits	50,790
Private attorney contracts, bankruptcy, insurance	115,272
Other PAI Activities	43,116
Support to Public Law Center	<u>4,086</u>
	<u>421,857</u>
Non-LSC fund PAI expenses:*	
Personnel salaries (lawyers, paralegals, clerical)	186,778
Public Law Center	8,946
Other PAI contracts	<u>95,310</u>
	<u>291,034</u>
Total PAI expenses	<u>712,891</u>
Net funds expended in (excess) of requirement	<u>\$ (231,216)</u>

During the year ended January 31, 2018, PAI net expenses amounted to \$231,216 in excess of the 12.5% PAI requirement, hence, the requirement was met.

LSC also 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 exceeded the 10% of support requirement by 3.7% or \$141,902 for the year ended January 31, 2018. For the year ended January 31, 2017, LSC net assets did not exceed 10% of support.

*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, 2018, the total mortgage notes payable for the four notes was \$3,357,818. 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>					
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
2023	24,762	17,015	94,854	26,601	163,232
Thereafter	<u>386,931</u>	<u>275,725</u>	<u>1,537,060</u>	<u>415,670</u>	<u>2,615,386</u>
Totals	<u>499,036</u>	<u>353,280</u>	<u>1,969,400</u>	<u>536,102</u>	<u>3,357,818</u>
Less current portion	<u>(20,221)</u>	<u>(14,093)</u>	<u>(78,560)</u>	<u>(21,723)</u>	<u>(134,597)</u>
Long-term portion	<u>\$ 478,815</u>	<u>339,187</u>	<u>1890,840</u>	<u>514,379</u>	<u>3,223,221</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, 2018) plus a 0.25% margin or the floor rate of 4%, whichever is greater. The line terminated on November 15, 2017 and was renewed on December 4, 2017 with a term of 36 months. There was no balance outstanding as of January 31, 2018.

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 property in Santa Ana #2, 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, 2018, rent expense for the equipment was \$4,547.

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

Year ending January 31:

2019	\$ <u>3,184</u>
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Office rent and maintenance expense of \$166,385 for the year ended January 31, 2018 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, 2018 consisted of the following:

Restricted for:	
LSC	\$ 678,939
State Bar – Equal Access	—
Total temporarily restricted net assets	\$ <u>678,939</u>

During the year ended January 31, 2018, \$5,147,386 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, 2018.

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 \$18,500 and \$18,000 of pre-tax compensation for calendar years 2018 and 2017, respectively, 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 2018 and 2017.

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, 2018, the Board of Directors approved a discretionary contribution of 1.5%. LASOC contributions are made monthly. Total employer contributions were \$173,545 for the year ended January 31, 2018.

(11) Other Expenses

Included in other expenses for the year ended January 31, 2018 are the following amounts:

	<u>LSC Basic Grant</u>	<u>Other Funds</u>	<u>Totals</u>
Professional contract services	\$ 67,424	44,863	112,287
Advertising/ marketing outreach	3,177	6,876	10,053
Work study	1,912	-	1,912
Repairs and maintenance	2,613	878	3,491
Publications and subscriptions	17,851	4,900	22,751
Sundry items	22,377	10,126	32,503
Taxes and license	972	20,524	21,496
Software license and consultation	7,092	1,506	8,598
Equipment rent and maintenance	2,942	4,177	7,119
Bank fees/ payroll processing	23,125	9,873	32,998
Miscellaneous expenses	-	<u>7,369</u>	<u>7,369</u>
Totals	<u>\$149,485</u>	<u>111,092</u>	<u>260,577</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 49% of LASOC's total support and revenues (less donated services) for the year ended January 31, 2018. 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, 2018 in the amount of \$4,125,058. Additionally, it is the intent of LASOC to bid for LSC funding through December 31, 2019. 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) Restatement of Interfund Net Assets

The accompanying financial statements reflect certain interfund adjustments that resulted in the restatement of LSC's property fund and the unrestricted Building fund's beginning net assets reported in the *combining statement of activities*. The adjustments were a result of overstatement of interfund activity recorded in previous years. Hence, \$234,056 of interfund activity was reclassified out of the aforementioned funds which net affect was \$0 on LASOC's total overall beginning net assets.

(16) Subsequent Events

Management has evaluated subsequent events through April 30, 2018, the date the financial statements were available to be issued.