

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Financial Statements, Supplementary Schedules,
and
Single Audit Report on Schedule of Expenditures of
Federal Awards
January 31, 2019
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, 2019

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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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Managements' 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.

Auditors' 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, 2019, 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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Emphasis of Matters

As described further in note one to the financial statements, during the year ended January 31, 2019, Legal Aid Society of Orange County Inc. implemented Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Legal Aid Society of Orange County Inc.'s 2018 financial statements, and our report dated April 30, 2018, 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, 2018, 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 May 20, 2019 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
May 20, 2019

FINANCIAL STATEMENTS

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Financial Position

January 31, 2019

(with comparative totals as of January 31, 2018)

	2019	2018
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,223,888	913,972
Time deposits (Note 1e)	1,000,000	1,037,000
Client trust deposits	55,021	21
Grants receivable (Note 2)	769,397	547,373
Other receivables	138,000	73,447
Prepaid expenses and other assets	55,057	58,188
Total current assets	3,241,363	2,630,001
Non-current assets (Note 4):		
Land, buildings, furniture and equipment, net	5,807,802	5,674,133
Law library, net	-	-
Total non-current assets, net	5,807,802	5,674,133
Total assets	\$ 9,049,165	8,304,134
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 305,891	254,970
Client trust liability	55,000	21
Current portion of mortgage notes payable (Note 6)	141,250	134,597
Accrued vacation (Note 1n)	298,027	257,825
Advance funding (Note 1k):		
Legal Services Corporation - basic grant	330,669	322,570
Legal Services Corporation - TIG grant	50,673	34,135
Other participating agencies	442,960	188,739
Total current liabilities	1,624,470	1,192,857
Long-term liabilities:		
Mortgage notes payable (Note 6)	3,081,985	3,223,221
Total long-term liabilities	3,081,985	3,223,221
Total liabilities	4,706,455	4,416,078
Net assets:		
Without donor restrictions:		
Designated for reserve	250,000	250,000
Undesignated	3,309,443	2,959,117
Total without donor restrictions	3,559,443	3,209,117
With donor restrictions (Note 9):		
Legal Services Corporation	777,633	678,939
Other	5,634	-
Total with donor restrictions	783,267	678,939
Total net assets	4,342,710	3,888,056
Total liabilities and net assets	\$ 9,049,165	8,304,134

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Activities
Year Ended January 31, 2019
(with comparative totals for the year ended January 31, 2018)

Operating Activities:	Without	With Donor Restrictions				Totals	
	Donor	State Bar				2019	2018
	Restrictions	LSC	IOLTA	Equal Access	Subtotal		
Support and revenue:							
Grants (Note 2)	\$ 3,026,844	4,136,097	396,466	790,808	5,323,371	8,350,215	7,531,462
Technology grants- LSC TIG National (Note 2)	-	57,325	-	-	57,325	57,325	56,767
Pro bono grant - LSC	-	60,181	-	-	60,181	60,181	-
Leadership grant	-	2,938	-	-	2,938	2,938	2,938
Investment income	9,500	7,969	-	-	7,969	17,469	7,355
Donated services (Note 11)	275,412	401,419	-	-	401,419	676,831	787,381
Contributions	159,518	-	-	-	-	159,518	109,836
Special event , net - Come Fly with Us, (gross income \$142,600 less direct expense \$170,873)	(28,273)	-	-	-	-	(28,273)	49,980
Rental income	13,585	-	-	-	-	13,585	22,498
Derivative income	-	15,911	-	-	15,911	15,911	-
Gain (loss) on sale of assets	(1,796)	-	-	-	-	(1,796)	(459)
Referral fees and miscellaneous income	318,169	-	-	-	-	318,169	122,549
Subtotal support and revenues	3,772,959	4,681,840	396,466	790,808	5,869,114	9,642,073	8,690,307
Net assets released from restrictions (Note 9)	5,768,381	(4,583,146)	(385,298)	(799,937)	(5,768,381)	-	-
Total support and revenue	9,541,340	98,694	11,168	(9,129)	100,733	9,642,073	8,690,307
Expenses:							
Program services	7,470,987	-	-	-	-	7,470,987	6,950,285
Supporting services:							
Management and general	1,716,432	-	-	-	-	1,716,432	1,416,604
Fundraising	-	-	-	-	-	-	-
Total expenses	9,187,419	-	-	-	-	9,187,419	8,366,889
Increase (decrease) in net assets	353,921	98,694	11,168	(9,129)	100,733	454,654	323,418
Net assets beginning of year (Note 15)	3,228,129	678,939	(5,534)	(13,478)	659,927	3,888,056	3,564,638
Net assets at end of year	\$ 3,582,050	777,633	5,634	(22,607)	760,660	4,342,710	3,888,056

See accompanying notes to financial statements

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Statement of Functional Expenses
Year Ended January 31, 2019
(with comparative totals for the year ended January 31, 2018)

	Supporting Services			Totals		
	Program Services	Management & General	Fundraising	Subtotal	2019	2018
Personnel expenses:						
Lawyers	\$ 2,040,756	155,079	-	155,079	2,195,835	1,886,365
Paralegals	1,386,737	-	-	-	1,386,737	1,246,885
Other nonlawyers	411,431	843,752	-	843,752	1,255,183	1,032,558
Donated services (Note 11)	676,831	-	-	-	676,831	787,381
Fringe benefits	1,110,296	289,661	-	289,661	1,399,957	1,227,066
Office rent and maintenance (Note 8)	134,184	34,813	-	34,813	168,997	166,385
Equipment rental	5,174	1,343	-	1,343	6,517	4,547
Office supplies and maintenance	196,856	51,073	-	51,073	247,929	165,167
Telephone	151,538	39,316	-	39,316	190,854	220,692
Program travel	22,262	5,776	-	5,776	28,038	24,769
Conference travel	53,845	13,970	-	13,970	67,815	48,509
Library	73,231	-	-	-	73,231	69,820
Insurance	59,918	15,545	-	15,545	75,463	81,792
Auditing and accounting	21,676	5,624	-	5,624	27,300	28,000
Dues and fees	51,072	13,250	-	13,250	64,322	58,240
Litigation	17,875	-	-	-	17,875	24,339
Technology grant - LSC TIG National	57,325	-	-	-	57,325	56,767
Pro bono grant - LSC	33,594	-	-	-	33,594	-
Support to Public Law Center (Notes 3 and 5)	13,470	-	-	-	13,470	13,031
Private attorney involvement (Note 5)	418,268	108,518	-	108,518	526,786	656,743
Interest	130,513	33,861	-	33,861	164,374	165,679
Special event - venue and other	-	-	170,873	170,873	170,873	90,270
Other (Note 11)	288,666	74,893	-	74,893	363,559	170,307
Total expenses before depreciation	<u>7,355,518</u>	<u>1,686,474</u>	<u>170,873</u>	<u>1,857,347</u>	<u>9,212,865</u>	<u>8,225,312</u>
Depreciation (Note 4)	<u>115,469</u>	<u>29,958</u>	<u>-</u>	<u>29,958</u>	<u>145,427</u>	<u>141,577</u>
Total expenses	<u>\$ 7,470,987</u>	<u>1,716,432</u>	<u>170,873</u>	<u>1,887,305</u>	<u>9,358,292</u>	<u>8,366,889</u>
Less expenses included in statement of activities	<u>-</u>	<u>-</u>	<u>(170,873)</u>	<u>(170,873)</u>	<u>(170,873)</u>	<u>-</u>
Total expenses per statement of activities	<u>\$ 7,470,987</u>	<u>1,716,432</u>	<u>-</u>	<u>1,716,432</u>	<u>9,187,419</u>	<u>8,366,889</u>

See accompanying notes to financial statements.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Statement of Cash Flows

Year Ended January 31, 2019

(with comparative totals for the year ended January 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 454,654	323,418
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	145,427	141,577
(Gain) Loss on sale of assets	(1,796)	459
Decrease (increase) in grants receivable	(222,024)	63,312
Decrease (increase) in other receivable	(64,553)	221,599
Decrease (increase) in prepaid expenses and other assets	3,131	30,875
Decrease (increase) in client trust deposits	(55,000)	-
(Decrease) increase in accounts payable and accrued liabilities	52,716	4,402
(Decrease) increase in accrued vacation	40,202	(24,520)
(Decrease) increase in client trust deposits	54,979	-
(Decrease) increase in advance funding - Legal Services Corporation	8,099	2,003
(Decrease) increase in advance funding - LSC TIG	16,538	(50,528)
(Decrease) increase in advance funding - Other participating agencies	<u>254,221</u>	<u>(34,662)</u>
 Net cash provided by (used for) operating activities	 <u>686,594</u>	 <u>677,935</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment and law library	(279,095)	(19,082)
Sale of time deposits	<u>37,000</u>	<u>(787,000)</u>
 Net cash provided by (used for) investing activities	 <u>(242,095)</u>	 <u>(806,082)</u>
Cash flows from financing activities:		
Principal payments on mortgage notes payable	<u>(134,583)</u>	<u>(128,249)</u>
 Net cash provided by (used for) financing activities	 <u>(134,583)</u>	 <u>(128,249)</u>
 Increase (decrease) in cash and cash equivalents	 309,916	 (256,396)
Cash and cash equivalents at beginning of year	<u>913,972</u>	<u>1,170,368</u>
Cash and cash equivalents at end of year	<u>\$ 1,223,888</u>	<u>\$ 913,972</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, 2019.

Supplemental disclosure of cash flow information:

Cash paid for interest expense	<u>\$ 164,374</u>	<u>\$ 165,679</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, 2019

(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, 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.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

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

(c) Financial Statement Presentation

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Update (ASU) 2016-14 Not for Profit Entities [Topic 958]- Presentation of Financial Statements of Not-For Profit Entities*, LASOC is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of LASOC's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of LASOC or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

(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, 2019, the Company owned certificate of deposits totaling \$1,000,000. The time certificates mature starting in February 2019 through July 2019, at rates of interest ranging from 2 to 2.3 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.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

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

(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. 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

(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.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

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

(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, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from 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.

Amounts received from LSC and State Bar are required to be treated as contributions and be reported as net assets with donor restrictions 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.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

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

(k) Advances from Funding Sources

Cash advances from third parties for services not yet performed are included as a liability. As of January 31, 2019, LASOC received advanced funding from LSC, LSC TIG, and other granting agencies in the amounts of \$330,669, \$50,673, and \$442,960, respectively.

(l) Donated Services

Donated services of \$676,831 for the year ended January 31, 2019 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.

(m) Functional Expense Allocations

Costs of providing LASOC's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel expenses	Time and effort
Rent – office and equipment	Time and effort
Utilities and telephone	Time and effort
Office supplies and maintenance	Time and effort
Accounting and audit	Time and effort
Transportation and travel	Time and effort
Insurance	Time and effort
Travel	Time and effort
Dues and fees	Time and effort
Interest	Time and effort
Other	Time and effort
Depreciation	Time and effort

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, 2019, the accrued vacation liability was \$298,027.

(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 2018, 2017, and 2016 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, 2018 from which the summarized information was derived.

(s) Reclassifications

For comparability purposes, certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 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)

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

(t) Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to LASOC's ongoing program services and interest and deposits. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. LASOC had no nonoperating activities for the year ended January 31, 2019.

(u) New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. LASOC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(2) Summary of Grant Funding

A summary of LASOC's grant revenues for the year ended January 31, 2019 are summarized as follows:

LSC - Basic Grant	\$4,136,097
County of Los Angeles - CalWORKS	587,866
Health Consumer Alliance	473,446
State Bar - Equal Access and EA Partnership	790,808
State Bar - IOLTA	396,466
Title IIIB Office on Aging - Senior Advocacy	300,321
SB Community Development and Foreclosure	413,166
CAL OES and Rainbow	298,880
Neighborhood Legal Service - Self Help Center	142,762
Small Claims Court Orange County	130,094
City of Irvine	100,000
IRS Low Income - Tax Payer Clinic	100,000
Others*	480,309
Total	<u><u>\$8,350,215</u></u>

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(2) Summary of Grant Funding (Continued)

*LASOC received various other cost-reimbursement grants totaling \$480,309 during the year ended January 31, 2019 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 \$57,325 for the year ended January 31, 2019.

Grants receivable from the various granting agencies as of January 31, 2019 was \$769,397, the majority of which was collected subsequent to January 31, 2019.

(3) Contracts

LASOC entered into a contract with the Public Law Center (PLC) which provided annual funds to PLC in the amount of \$13,470 (which related to private attorney involvement) for fiscal year ended January 31, 2019. LASOC also entered into contracts with Justice in Education (JIE), and Community Lawyers, Inc. (CLI) in the amounts of \$2,440 and \$12,000, respectively, during the fiscal year.

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

Land, buildings, furniture and equipment and law library consist of the following at January 31, 2019:

Land*	\$3,127,281
Leasehold improvements	2,156,995
Building	1,521,142
Furniture and equipment	1,909,225
Software (I-CAN)	1,498,893
Accumulated depreciation	<u>(4,405,734)</u>
	<u>\$5,807,802</u>
Law Library	\$ 323,795
Accumulated depreciation	<u>(323,795)</u>
	<u>\$ -</u>

* - Not depreciated

Total depreciation expenses for the year ended January 31, 2019 was \$145,427.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(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, 2019 are summarized as follows:

LSC basic grant revenue recognized	\$4,136,097
	<u>x12.5%</u>
LSC PAI requirement	<u>517,012</u>
LSC PAI expenses:	
Personnel salaries (lawyers, paralegals, clerical)	152,439
Payroll taxes and employee benefits	40,821
Private attorney contracts, bankruptcy, insurance	51,855
Other PAI Activities	<u>30,061</u>
	<u>275,176</u>
Non-LSC fund PAI expenses:*	
Personnel salaries (lawyers, paralegals, clerical)	210,760
Public Law Center	13,470
Other PAI contracts	<u>70,910</u>
	<u>295,140</u>
Total PAI expenses	<u>570,316</u>
Net funds expended in (excess) of requirement	<u>\$ (53,304)</u>

During the year ended January 31, 2019, PAI net expenses amounted to \$53,304 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 1.2% and 3.7% (or \$48,809 and \$141,902) for the years ended January 31, 2019 and 2018, respectively. The excess funds in 2018 were carried over to January 31, 2018 which was authorized by LSC and which were spent prior to the 2019 basic grant.

*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, 2019, the total mortgage notes payable for the four notes was \$3,223,235. 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.

The 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>					
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	90,485	25,286	155,540
2023	24,762	17,015	94,854	26,601	163,232
2024	26,049	17,837	99,435	27,984	171,305
Thereafter	<u>360,886</u>	<u>257,890</u>	<u>1,437,632</u>	<u>387,689</u>	<u>2,444,097</u>
Totals	<u>\$ 478,819</u>	<u>339,189</u>	<u>1,890,846</u>	<u>514,381</u>	<u>3,223,235</u>
Less current portion	<u>(21,272)</u>	<u>(14,773)</u>	<u>(82,353)</u>	<u>(22,852)</u>	<u>(141,250)</u>
Long-term portion	<u>\$ 457,547</u>	<u>324,416</u>	<u>1,808,493</u>	<u>491,529</u>	<u>3,081,985</u>

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Financial Statements

(Continued)

(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 index rate (5.25% as of January 31, 2019) plus a 0.0% margin or the floor rate of 4%, whichever is greater. The line was renewed on November 30, 2018 with a term of 36 months. There was no balance outstanding as of January 31, 2019.

(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 terminated in 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, 2019, rent expense for the equipment was \$6,518.

Office rent and maintenance expense of \$168,997 for the year ended January 31, 2019 included storage and facility costs, parking, and other office maintenance and repair costs and are month to month.

(9) Net Assets with Donor Restrictions

Net Assets with Donor Restrictions as of January 31, 2019 consisted of the following:

Restricted for:	
LSC	\$ 777,633
State Bar of CA	<u>5,634</u>
Total temporarily restricted net assets	<u>\$ 783,267</u>

During the year ended January 31, 2019, \$5,768,361 of net assets with donor restrictions 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, 2019.

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 of pre-tax compensation for calendar years 2019 and 2018 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 2019 and 2018.

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, 2019, the Board of Directors approved a discretionary contribution of 1.5%. LASOC contributions are made monthly. Total employer contributions were \$190,390 for the year ended January 31, 2019.

(11) Other Expenses

Included in other expenses for the year ended January 31, 2019 are the following amounts:

	<u>LSC Basic Grant</u>	<u>Other Funds</u>	<u>Totals</u>
Professional contract services	\$ 81,827	47,512	129,339
Advertising/ marketing outreach	54,324	16,824	71,148
Work study	-	-	-
Repairs and maintenance	6,879	2,155	9,034
Publications and subscriptions	18,043	5,427	23,470
Sundry and related items	27,774	20,812	48,586
Taxes and license	88	6,475	6,563
Software license and consultation	23,788	1,952	25,740
Equipment rent and maintenance	99	2,573	2,672
Bank fees/ payroll processing	<u>31,567</u>	<u>15,440</u>	<u>47,007</u>
Totals	<u>\$244,389</u>	<u>119,170</u>	<u>363,559</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 46% of LASOC's total support and revenues (less donated services) for the year ended January 31, 2019. 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, 2019 in the amount of \$3,968,018. Additionally, it is the intent of LASOC to bid for LSC funding through December 31, 2020. 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) Availability and Liquidity

The following represents LASOC's financial assets at January 31, 2019:

Financial assets at year end:

Cash and cash equivalents	\$1,223,888
Time deposits	1,000,000
Grants receivable	769,397
Other receivables	138,000
Prepaid assets	<u>55,057</u>
Total financial assets	<u>3,186,342</u>

Less amounts not available
to be used within 1 year:

Net assets with donor restrictions	783,267
Less net assets with purpose restrictions to be met within one year	<u>(783,267)</u>
Subtotal	<u>-</u>

Financial assets available to meet general expenses over the next 12 months:	<u>\$3,186,342</u>
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(16) Subsequent Events

Management has evaluated subsequent events through May 20, 2019, the date the financial statements were available to be issued.

SUPPLEMENTARY SCHEDULES

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LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Combining Schedule of Financial Position
January 31, 2019
(with comparative totals as of January 31, 2018)

	Legal Services Corporation	Senior Advocacy Program	State Bar of California	
			IOLTA	Equal Access
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 734,890	-	-	-
Time deposits	500,000	-	-	-
Client trust deposits	21	-	-	-
Grants receivable	6,630	95,724	60,454	67,579
Other receivables	51,473	-	-	-
Interfund receivable	-	-	-	-
Prepaid expenses and other assets	44,471	-	-	-
Total current assets	1,337,485	95,724	60,454	67,579
Non-current assets:				
Land, buildings, furniture and equipment, net	214,892	-	-	-
Law library, net	-	-	-	-
Total non-current assets	214,892	-	-	-
Total assets	\$ 1,552,377	95,724	60,454	67,579
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 197,153	9,118	11,262	23,634
Client trust liability	-	-	-	-
Interfund payable	-	65,199	24,882	49,538
Current portion of mortgage notes payable	-	-	-	-
Accrued vacation	196,249	16,385	18,676	17,014
Advance funding:				
LSC - Basic grant	330,669	-	-	-
LSC - TIG and Pro Bono grant	50,673	-	-	-
Other participating granting agencies	-	-	-	-
Total current liabilities	774,744	90,702	54,820	90,186
Long-term liabilities:				
Mortgage notes payable	-	-	-	-
Total long-term liabilities	-	-	-	-
Total liabilities	774,744	90,702	54,820	90,186
Net assets:				
Without donor restrictions:				
Designated for reserve	-	-	-	-
Undesignated	-	5,022	-	(22,607)
With donor restrictions (Note 9):	777,633	-	5,634	-
Total net assets	777,633	5,022	5,634	(22,607)
Total liabilities and net assets	\$ 1,552,377	95,724	60,454	67,579

(continued)

(continued)

	Legal Aid Society			Totals	
	Other Grants	Building	Eliminations	2019	2018
<u>Assets</u>					
Current assets:					
Cash and cash equivalents	\$ 486,527	2,471	-	1,223,888	913,972
Time deposits	500,000	-	-	1,000,000	1,037,000
Client trust deposits	55,000	-	-	55,021	21
Grants receivable	539,010	-	-	769,397	547,373
Other receivables	85,077	1,450	-	138,000	73,447
Interfund receivable	139,619	-	(139,619)	-	-
Prepaid expenses and other assets	3,700	6,886	-	55,057	58,188
Total current assets	1,808,933	10,807	(139,619)	3,241,363	2,630,001
Non-current assets:					
Land, buildings, furniture and equipment, net	13,176	5,579,734	-	5,807,802	5,674,133
Law library, net	-	-	-	-	-
Total non-current assets	13,176	5,579,734	-	5,807,802	5,674,133
Total assets	\$ 1,822,109	5,590,541	(139,619)	9,049,165	8,304,134
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 58,768	5,956	-	305,891	254,970
Client trust liability	55,000	-	-	55,000	21
Interfund payable	-	-	(139,619)	-	-
Current portion of mortgage notes payable	-	141,250	-	141,250	134,597
Accrued vacation	49,703	-	-	298,027	257,825
Advance funding:					
LSC - Basic grant	-	-	-	330,669	322,570
LSC - TIG and Pro Bono grant	-	-	-	50,673	34,135
Other participating granting agencies	442,960	-	-	442,960	188,739
Total current liabilities	606,431	147,206	(139,619)	1,624,470	1,192,857
Long-term liabilities:					
Mortgage notes payable	-	3,081,985	-	3,081,985	3,223,221
Total long-term liabilities	-	3,081,985	-	3,081,985	3,223,221
Total liabilities	606,431	3,229,191	(139,619)	4,706,455	4,416,078
Net assets:					
Without donor restrictions:					
Designated for reserve	250,000	-	-	250,000	250,000
Undesignated	965,678	2,361,350	-	3,309,443	2,978,129
With donor restrictions (Note 9):	-	-	-	783,267	659,927
Total net assets	1,215,678	2,361,350	-	4,342,710	3,888,056
Total liabilities and net assets	\$ 1,822,109	5,590,541	(139,619)	9,049,165	8,304,134

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Combining Schedule of Support, Revenues, Expenses, and Changes in Net Assets
Year Ended January 31, 2019
(with comparative totals for the year ended January 31, 2018)

	Legal Services Corporation	Senior Advocacy Program	State Bar of California	
			IOLTA	Equal Access
Support and revenue:				
Grants	\$ 4,136,097	300,322	396,466	790,808
Technology grants- LSC TIG National	57,325	-	-	-
Pro bono grant - LSC	60,181	-	-	-
Leadership grant	2,938	-	-	-
Investment income	7,969	-	-	-
Donated services	401,419	10,011	-	-
Contributions	-	-	-	-
Special event income -Come Fly with Us	-	-	-	-
Rental income	-	-	-	-
Derivative income	15,911	-	-	-
Gain (loss) on sale of assets	-	-	-	-
Referral fees and miscellaneous income	-	-	-	-
Total support and revenue	<u>4,681,840</u>	<u>310,333</u>	<u>396,466</u>	<u>790,808</u>
Personnel expenses:				
Lawyers	605,835	145,960	85,041	229,562
Paralegals	542,061	40,718	56,275	258,127
Other nonlawyers	777,906	31,104	56,605	71,463
Donated services	401,419	10,010	-	-
Payroll taxes and employee benefits	622,548	56,734	59,758	161,321
Total personnel expenses	<u>2,949,769</u>	<u>284,526</u>	<u>257,679</u>	<u>720,473</u>
Other expenses:				
Office rent and maintenance	354,920	9,699	23,174	24,323
Equipment rental	3,629	-	152	255
Office supplies and equipment	166,918	2,762	6,530	11,612
Telephone	147,119	-	6,009	9,030
Program travel	15,364	270	483	2,182
Conference travel	62,608	-	2,136	-
Library	59,786	-	2,536	4,922
Insurance	41,888	-	2,420	3,974
Auditing and accounting	18,046	-	2,288	3,240
Dues and fees	20,951	-	30,059	667
Litigation	15,138	-	530	372
Depreciation	18,877	-	-	-
Technology grant - LSC TIG National	57,325	-	-	-
Pro bono grant - LSC	33,594	-	-	-
Support to Public Law Center	-	-	13,470	-
Private attorney involvement	245,115	12,374	35,429	15,222
Interest	-	-	-	-
Special event expense - venue and other	127,710	-	-	-
Other	244,389	700	2,403	3,665
Total other expenses	<u>1,633,377</u>	<u>25,805</u>	<u>127,619</u>	<u>79,464</u>
Total expenses	<u>4,583,146</u>	<u>310,331</u>	<u>385,298</u>	<u>799,937</u>
Increase (decrease) in net assets	98,694	2	11,168	(9,129)
Net assets at beginning of year (Note 15)	<u>678,939</u>	<u>5,020</u>	<u>(5,534)</u>	<u>(13,478)</u>
Net assets at end of year	<u>\$ 777,633</u>	<u>5,022</u>	<u>5,634</u>	<u>(22,607)</u>

(continued)

(continued)

	Legal Aid Society			Totals	
	Other Grants	Building	Eliminations	2019	2018
Support and revenue:					
Grants	\$ 2,726,522	-	-	8,350,215	7,531,462
Technology grants- LSC TIG National	-	-	-	57,325	56,767
Pro bono grant - LSC	-	-	-	60,181	-
Leadership grant	-	-	-	2,938	2,938
Investment income	9,500	-	-	17,469	7,355
Donated services	265,401	-	-	676,831	787,381
Contributions	159,518	-	-	159,518	109,836
Special event income -Come Fly with Us	142,600	-	-	142,600	140,250
Rental income	13,585	537,061	(537,061)	13,585	22,498
Derivative income	-	-	-	15,911	-
Gain (loss) on sale of assets	(1,796)	-	-	(1,796)	(459)
Referral fees and miscellaneous income	318,169	-	-	318,169	122,549
Total support and revenue	<u>3,633,499</u>	<u>537,061</u>	<u>(537,061)</u>	<u>9,812,946</u>	<u>8,780,577</u>
Personnel expenses:					
Lawyers	1,129,437	-	-	2,195,835	1,886,365
Paralegals	489,556	-	-	1,386,737	1,246,885
Other nonlawyers	318,105	-	-	1,255,183	1,032,558
Donated services	265,402	-	-	676,831	787,381
Payroll taxes and employee benefits	499,596	-	-	1,399,957	1,227,066
Total personnel expenses	<u>2,702,096</u>	<u>-</u>	<u>-</u>	<u>6,914,543</u>	<u>6,180,255</u>
Other expenses:					
Office rent and maintenance	136,532	157,410	(537,061)	168,997	166,385
Equipment rental	2,481	-	-	6,517	4,547
Office supplies and equipment	59,842	265	-	247,929	165,167
Telephone	28,696	-	-	190,854	220,692
Program travel	9,739	-	-	28,038	24,769
Conference travel	3,071	-	-	67,815	48,509
Library	5,987	-	-	73,231	69,820
Insurance	12,094	15,087	-	75,463	81,792
Auditing and accounting	3,726	-	-	27,300	28,000
Dues and fees	12,408	237	-	64,322	58,240
Litigation	1,835	-	-	17,875	24,339
Depreciation	2,186	124,364	-	145,427	141,577
Technology grant - LSC TIG National	-	-	-	57,325	56,767
Pro bono grant - LSC	-	-	-	33,594	-
Support to Public Law Center	-	-	-	13,470	13,031
Private attorney involvement	218,646	-	-	526,786	656,743
Interest	5,029	159,345	-	164,374	165,679
Special event expense - venue and other	43,163	-	-	170,873	90,270
Other	106,365	6,037	-	363,559	260,577
Total other expenses	<u>651,800</u>	<u>462,745</u>	<u>(537,061)</u>	<u>2,443,749</u>	<u>2,276,904</u>
Total expenses	<u>3,353,896</u>	<u>462,745</u>	<u>(537,061)</u>	<u>9,358,292</u>	<u>8,457,159</u>
Increase (decrease) in net assets	279,603	74,316	-	454,654	323,418
Net assets at beginning of year (Note 15)	<u>936,075</u>	<u>2,287,034</u>	<u>-</u>	<u>3,888,056</u>	<u>3,564,638</u>
Net assets at end of year	<u>\$ 1,215,678</u>	<u>2,361,350</u>	<u>-</u>	<u>4,342,710</u>	<u>3,888,056</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, 2019

(with comparative totals for the year ended January 31, 2018)

	Basic Field Grant	Carryover*	PAI	TIG, Leadership, and Pro Bono	Property	Totals	
						2019	2018
Support and revenue:							
Grants	\$4,136,097	-	-	-	-	4,136,097	3,853,401
Technology grants- LSC TIG National	-	-	-	57,325	-	57,325	56,767
Pro bono grant - LSC	-	-	-	60,181	-	60,181	-
Leadership grant	-	-	-	2,938	-	2,938	2,938
Investment income	7,969	-	-	-	-	7,969	2,925
Donated services	-	-	401,419	-	-	401,419	458,266
Derivative income	15,911	-	-	-	-	15,911	-
Gain (loss) on sale of assets	-	-	-	-	-	-	(459)
Total support and revenue	<u>4,159,977</u>	<u>-</u>	<u>401,419</u>	<u>120,444</u>	<u>-</u>	<u>4,681,840</u>	<u>4,373,838</u>
Personnel expenses:							
Lawyers	605,835	-	95,884	27,272	-	728,991	680,444
Paralegals	542,061	-	15,047	-	-	557,108	493,440
Other nonlawyers	777,906	-	41,508	32,825	-	852,239	742,074
Donated services	-	-	401,419	-	-	401,419	458,266
Payroll taxes and employee benefits	622,548	-	40,820	10,787	-	674,155	607,786
Total personnel expenses	<u>2,548,350</u>	<u>-</u>	<u>594,678</u>	<u>70,884</u>	<u>-</u>	<u>3,213,912</u>	<u>2,982,010</u>
Other expenses:							
Office rent and maintenance	354,920	-	-	-	-	354,920	328,969
Equipment rental	3,486	-	143	-	-	3,629	3,548
Office supplies and equipment	159,853	-	7,065	6,860	-	173,778	112,580
Telephone	141,314	-	5,805	1,371	-	148,490	163,470
Program travel	14,336	-	-	1,329	-	15,665	18,760
Conference travel	62,288	-	-	3,925	-	66,213	43,260
Library	59,786	-	-	-	-	59,786	58,985
Insurance	40,235	-	1,653	-	-	41,888	43,103
Auditing and accounting	17,334	-	712	-	-	18,046	19,332
Dues and fees	18,201	-	-	2,750	-	20,951	16,565
Litigation	15,138	-	-	-	-	15,138	22,975
Support to Public Law Center	-	-	-	-	-	-	4,086
Private attorney involvement	-	-	51,856	-	-	51,856	115,273
Depreciation	-	-	-	-	18,877	18,877	13,203
Special event expense- venue and other	127,710	-	-	-	-	127,710	83,995
Other	229,707	-	14,682	7,898	-	252,287	177,025
Total other expenses	<u>1,244,308</u>	<u>-</u>	<u>81,916</u>	<u>24,133</u>	<u>18,877</u>	<u>1,369,234</u>	<u>1,225,129</u>
Total expenses	<u>3,792,658</u>	<u>-</u>	<u>676,594</u>	<u>95,017</u>	<u>18,877</u>	<u>4,583,146</u>	<u>4,207,139</u>
Increase (decrease) in net assets	367,319	-	(275,175)	25,427	(18,877)	98,694	166,699
Other changes in net assets/ cash inflows (outflows):							
PAI	(275,175)	-	275,175	-	-	-	-
Purchase of property, equipment and software	(12,970)	(141,902)	-	-	154,872	-	-
Payment of debt principal	-	-	-	-	-	-	-
Transfer of proceeds from / returned to LSC	-	-	-	-	-	-	-
Total changes in net assets	79,174	(141,902)	-	25,427	135,995	98,694	166,699
LSC Net assets:							
LSC Net assets at beginning of year (Note 15)	<u>385,633</u>	<u>141,902</u>	<u>-</u>	<u>1,159</u>	<u>150,245</u>	<u>678,939</u>	<u>512,240</u>
LSC Net assets at end of year	<u>\$ 464,807</u>	<u>\$ -</u>	<u>-</u>	<u>26,586</u>	<u>286,240</u>	<u>777,633</u>	<u>678,939</u>

**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, 2019, and the related notes to the financial statements, which collectively comprise LASOC's basic financial statements, and have issued our report thereon dated May 20, 2019.

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

May 20, 2019



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, 2019. 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, 2019.

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
May 20, 2019

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.
Preliminary Schedule of Expenditures of Federal Awards

Year Ended January 31, 2019

Federal Grantor Program Title/ Pass-through Grantor	Federal CFDA Number	Program Identification Number	Grant Period	Total Award	Unearned Revenue Balance 1/31/2018	Current Year Funding	Unearned Revenue Balance 1/31/2019	Payments to Subrecipients
Major Program								
Legal Services Corporation - pass-through program:								
Legal Services Corporation for low income	09.805310	805310	01/01/2018 - 12/31/2018	3,853,401	\$ 322,570	\$ 3,805,428	\$ -	\$ -
Legal Services Corporation for low income	09.805310	805310	01/01/2019 - 12/31/2019	4,125,058		330,669	330,669	-
Subtotal - Legal Services Corporation for low income					322,570	4,136,097	330,669	-
Vieth Leadership Grant Program	09.805310	G805310	11/01/2017 - 10/31/2018	5,876	-	2,938	-	-
Pro Bono Innovation Fund (PBIF)	09.805310	PB18022	10/01/2018 - 09/30/2020	361,083		60,181	12,036	-
Technology Initiative Grant -TIG/ EITC	09.805310	15054	10/01/2015 - 03/31/2019	152,200		21,382	38,638	-
Technology Initiative Grant -TIG/ EITC	09.805310	16019			-	35,943	-	-
Subtotal - Legal Services Corporation					322,570	4,256,541	381,343	-
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	07/01/2017 - 06/30/2018	261,128	-	117,911	-	-
County of Orange Community Services Agency	93.044	35	07/01/2018 - 06/30/2019	346,170	-	182,411	-	-
Subtotal-Special Programs for the Aging-Title IIIB					-	300,322	-	-
State of California, Community and Senior Services of Los Angeles County:								
CalWORKs - Domestic Violence Supportive Services	93.558	SSC-000026	07/01/2017 - 06/30/2018	587,867	-	244,945	-	-
CalWORKs - Domestic Violence Supportive Services	93.558	SSC-000026	07/01/2018 - 06/30/2019	587,867	-	342,922	-	-
Subtotal - CalWORKs - Domestic Violence Supportive Services					-	587,867	-	-
Subtotal -U.S. Department of Health and Human Services					-	888,189	-	-
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	07/01/2016 - 06/30/2017	11,000	-	4,583	-	-
City of Norwalk FY 17/18	14.218	B-11-MC-06-0524	07/01/2017 - 06/30/2018	11,000	-	6,417	-	-
City of Norwalk FY 17/18	14.218	B-11-MC-06-0524	07/01/2017 - 06/30/2018	11,000	-	-	-	-
City of Norwalk FY 18/19	14.218	B-11-MC-06-0524	07/01/2018 - 06/30/2019	11,000	-	-	-	-
City of Compton FY 17/18	14.218	B-11-MC-06-0524	07/01/2017 - 06/30/2018	19,871	-	8,280	-	-
City of Compton FY 18/19	14.218	B-11-MC-06-0524	07/01/2018 - 06/30/2019	25,000	-	14,583	-	-
City of Santa Ana Expungement FY 17/18	14.218	B-17-MC-06-0508	07/01/2017 - 06/30/2018	42,870	-	9,733	-	-
City of Santa Ana Expungement FY 18/19	14.218	B-18-MC-06-0508	07/01/2018 - 06/30/2019	44,277	-	13,760	-	-
City of Santa Ana Domestic Violence FY 17/18	14.218	B-17-MC-06-0508	07/01/2017 - 06/30/2018	40,809	-	32,334	-	-
City of Santa Ana Domestic Violence FY 18/19	14.218	B-18-MC-06-0508	07/01/2018 - 06/30/2019	36,374	-	11,994	-	-
Subtotal - Community Development Block Grants Cluster					-	101,683	-	-
U.S. Department of Treasury:								
Internal Revenue Service:								
Low income tax	21.008	18LITC0033-02-01	01/01/2018 - 12/31/2018	100,000	-	91,667	-	-
Low income tax	21.008	19LITC0033-02-01	01/01/2019 - 12/31/2019	100,000	-	8,333	-	-
Subtotal- Low income tax					-	100,000	-	-
Neighborhood Reinvestment Corporation Act:								
Pass-through:								
Rural Community Assistance Corporation	21.000	PL113-235X1350	07/01/2016-6/30/2017	17,820	-	10,400	-	-
Subtotal - Neighborhood Reinvestment Corporation Act					-	10,400	-	-
Subtotal - U.S. Department of Treasury					-	110,400	-	-
U.S. Department of Justice:								
Cal OES - pass through:								
Legal Assistance for Victims	16.524	XL16 01 1109	7/1/2016-12/31/2019	699,083	-	198,859	-	-
Legal Assistance for Victims (Rainbow Services)	16.524	XL16 01 1339	7/1/2016-12/31/2019	699,083	-	100,028	-	-
Legal Assistance for Victims (Foster Youth)	16.524	XL18 01 1109	1/1/2019-12/31/2019	301,819	-	7,524	-	-
Legal Assistance for Victims (Human Options)	16.524	OVW-2018-13828	10/1/2018-9/30/2021	303,264	-	3,321	-	-
Legal Assistance for Victims (Women's Transitional Living Center, WTLC)	16.524		7/1/2017-12/31/2018	20,000	-	20,000	-	-
Subtotal - Legal Assistance for Victims					-	329,732	-	-
Equal Justice Works - pass through:								
Crime Victims Justice Corps (VOCA)	16.000	2018-CVIC-023	5/1/2018-7/31/2020	138,388	-	38,988	-	-
Crime Victims Justice Corps (TVPA)	16.000	2018-CVIC-023	5/1/2018-7/31/2020	104,144	-	31,706	-	-
Subtotal - Crime Victims Justice Corps					-	70,694	-	-
Subtotal - U.S. Department of Justice					-	400,426	-	-
Total Federal Award Expenditures					\$ 322,570	\$ 6,487,293	\$ 381,343	\$ -

* - Denoted major federal program.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Notes to the Schedule of Expenditures of Federal Awards

January 31, 2019

(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. The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Office of Management and Budget Uniform Grant Guidance).

(c) Subrecipients

There were no payments of federal funds that were made to subrecipients for the year ended January 31, 2019:

(d) De Minimus Indirect Cost Rate

The entity elected 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, 2019

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) and 2CFR 200.516(a)

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) and CFR 200.516(a).
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, 2019 for purposes of determining major programs.

LEGAL AID SOCIETY OF ORANGE COUNTY, INC.

Summary Schedule of Prior Audit Findings

Year ended January 31, 2019

There were no findings reported in the single audit report for the year ended January 31, 2018.