Arizona Foundation for Legal Services and Education
Financial Statements and Independent Auditor’s Report for the Years Ending December 31, 2018 and 2017

Report on Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and the Uniform Guidance For the Year Ended December 31, 2018

Snyder & Butler, CPAs, PLLC

Arizona Foundation for Legal Services and Education
December 31, 2018 and 2017
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❖ Snyder & Butler, CPAs, PLLC

Independent Auditor's Report

To the Board of Directors
Arizona Foundation for Legal Services and Education

Report on the Financial Statements
We have audited the accompanying financial statements of Arizona Foundation for Legal Services and Education, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Foundation for Legal Services and Education as of December 31, 2018 and 2017, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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,* is 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 September 20, 2019, on our consideration of the Arizona Foundation for Legal Services and Education'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 the Arizona Foundation for Legal Services and Education's internal control over financial reporting and compliance.

Snyder + Butler, CPAs PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
September 20, 2019

Financial Statements

Arizona Foundation for Legal Services and Education
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 75,168	$ 49,087
Accounts receivable, net	431,852	437,266
Pledges receivable, net	37,680	33,116
IOLTA receivable	74,000	48,000
Prepaid expenses	34,356	32,852
Total current assets	653,056	600,321
Property and equipment	407,265	354,513
Less accumulated depreciation	(300,607)	(293,619)
Property and equipment, net	106,658	60,894
Cash and investments held for board-designated endowment, restricted, and investment purposes		
Cash and cash equivalents	2,222,449	3,238,260
Investments	3,273,767	3,468,465
Pledges receivable, net of discount	28,535	46,372
Total assets	$ 6,284,465	$ 7,414,312
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$ 49,727	$ 25,294
Accrued liabilities	337,260	253,867
Deferred revenues	5,171,085	6,628,013
Total liabilities	5,558,072	6,907,174
Net Assets:		
Without donor restriction	466,010	222,557
With donor restriction	260,383	284,581
Total net assets	726,393	507,138
Total liabilities and net assets	$ 6,284,465	$ 7,414,312

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and gains:						
IOLTA	$ 795,221	$ -	$ 795,221	$ 563,918	$ -	$ 563,918
Federal and state grants	3,483,569	-	3,483,569	3,433,056	-	3,433,056
Contributions	332,963	11,681	344,644	525,355	3,133	528,488
SBA legal services contributions	125,000	-	125,000	125,000	-	125,000
Mock Trial registration and fees	30,840	-	30,840	31,560	-	31,560
SBA dues for pro bono	99,021	-	99,021	99,929	-	99,929
Pro Hac Vice	80,000	-	80,000	80,000	-	80,000
Program and fees	118,237	-	118,237	72,329	-	72,329
Working poor tax credit	10,862	-	10,862	10,844	-	10,844
Interest	21,336	2	21,338	144	15,957	16,101
Net gain (loss) on investments	(22,405)	(7,945)	(30,350)	1,256	14,386	15,642
Other income	17,638	-	17,638	2,825	-	2,825
Net assets released from restrictions	27,936	(27,936)	-	28,680	(28,680)	-
Total revenues, support, and gains	5,120,218	(24,198)	5,096,020	4,974,896	4,796	4,979,692
Expenses and losses:						
Program services:						
Legal services	3,615,729	-	3,615,729	3,696,362	-	3,696,362
Law related education	1,011,741	-	1,011,741	918,219	-	918,219
Support services:						
Management and general	168,394	-	168,394	157,555	-	157,555
Fundraising	80,901	-	80,901	79,405	-	79,405
Total expenses	4,876,765	-	4,876,765	4,851,541	-	4,851,541
Change in net assets	243,453	(24,198)	219,255	123,355	4,796	128,151
Net assets, beginning of year	222,557	284,581	507,138	99,202	279,785	378,987
Net assets, end of year	$ 466,010	$ 260,383	$ 726,393	$ 222,557	$ 284,581	$ 507,138

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018					
	Program Services			Supporting Services		
	Law Related Education	Legal & Technology Services	Total Program	Management and General	Fundraising	Total
Salaries	$ 441,691	$ 622,709	$ 1,064,400	$ 77,461	$ 38,557	$ 1,180,418
Employee benefits	96,083	110,241	206,324	13,829	5,633	225,786
Payroll taxes	32,434	45,729	78,163	5,071	2,721	85,955
Total payroll and related	570,208	778,679	1,348,887	96,361	46,911	1,492,159
Other Expenses						
Grantee assistance	129,806	2,413,287	2,543,093	-	-	2,543,093
Professional services	191,116	285,872	476,988	14,574	5,234	496,796
Facility and equipment rentals	44,764	45,227	89,991	6,432	2,989	99,412
Travel and Training	5,443	9,140	14,583	24,813	16,167	55,563
Gifts and awards	30,184	408	30,592	1,883	5,628	38,103
Dues and memberships	3,456	23,276	26,732	4,593	74	31,399
Depreciation	9,587	18,184	27,771	1,414	502	29,687
Communication	10,814	14,911	25,725	1,510	486	27,721
Supplies and equipment	8,478	13,741	22,219	2,954	265	25,438
Printing and postage	7,885	13,004	20,889	1,743	2,645	25,277
Insurance	-	-	-	12,117	-	12,117
Total functional expenses	$ 1,011,741	$ 3,615,729	$ 4,627,470	$ 168,394	$ 80,901	$ 4,876,765

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

(continued)

	2017					
	Program Services			Supporting Services		
	Law Related Education	Legal & Technology Services	Total Program	Management and General	Fundraising	Total
Salaries	$ 378,257	$ 521,852	$ 900,109	$ 63,198	$ 31,709	$ 995,016
Employee benefits	72,982	78,919	151,901	10,721	3,942	166,564
Payroll taxes	27,973	38,632	66,605	5,965	2,379	74,949
Total payroll and related	479,212	639,403	1,118,615	79,884	38,030	1,236,529
Other Expenses						
Grantee assistance	109,018	2,432,175	2,541,193	-	-	2,541,193
Professional services	208,795	470,898	679,693	15,805	10,723	706,221
Facility and equipment rentals	67,404	73,120	140,524	7,481	11,180	159,185
Travel and Training	2,428	5,690	8,118	14,643	12,263	35,024
Gifts and awards	15,529	2,501	18,030	2,149	4,357	24,536
Dues and memberships	1,616	3,357	4,973	7,107	150	12,230
Depreciation	7,570	15,312	22,882	1,066	389	24,337
Communication	8,462	11,720	20,182	1,113	583	21,878
Supplies and equipment	10,128	29,878	40,006	5,369	654	46,029
Printing and postage	8,057	12,308	20,365	3,898	1,076	25,339
Insurance	-	-	-	18,856	-	18,856
Loss on sale of asset	-	-	-	184	-	184
Total functional expenses	$ 918,219	$ 3,696,362	$ 4,614,581	$ 157,555	$ 79,405	$ 4,851,541

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 219,255	$ 128,151
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	29,687	24,337
Services received in lieu of payments on notes receivable	-	49,620
(Gain) Loss on disposition of equipment	-	184
Net unrealized losses (gains) on investments	30,350	(15,642)
Changes in operating assets and liabilities		
IOLTA receivable	(26,000)	(2,000)
Accounts receivable	5,414	(81,297)
Pledges receivable	13,273	27,132
Prepaid expenses	(1,504)	(23,123)
Accounts payable	24,433	(28,173)
Accrued expenses	83,393	2,477
Deferred revenue	(1,456,928)	(1,512,727)
Net cash provided (used) by operating activities	(1,078,627)	(1,431,061)
Cash flows from investing activities:		
Sale of investments	164,348	4,223,017
Purchases of equipment	(75,451)	(40,628)
Net cash provided (used) by investing activities	88,897	4,182,389
Net increase (decrease) in cash and cash equivalents	(989,730)	2,751,328
Cash and cash equivalents, beginning of year	3,287,347	536,019
Cash and cash equivalents, end of year	$ 2,297,617	$ 3,287,347

Supplemental Disclosure of Noncash Activities

During fiscal year 2017, the Foundation received services totaling $49,620 which was recorded as a reduction in the note receivable balances owed from the organization.

Note 1 - Operations and Summary of Significant Accounting Policies

Nature of the Organization - Arizona Foundation for Legal Services and Education ("Foundation") is a public nonprofit Arizona corporation that was founded in 1978 with the mission of "promoting access to justice for all Arizonans" through the provision of technical and financial assistance to legal service providers and education entities and through partnerships and work with judges, attorneys, educators, and all those committed to equal access to justice. The Foundation has been determined exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code.

Basis of Accounting – The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and liabilities. Revenues are recognized when earned and expenses are recorded when incurred.

Basis of Presentation - The financial statements of the Foundation have been prepared in accordance with U.S. Generally accepted accounting principles (US GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Comparative Financial Information –Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Estimates – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist primarily of cash on hand and bank deposit accounts. For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Pledges Receivable – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Foundation is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Unconditional pledges from program campaigns are recorded as temporarily restricted support when received due to donor time restrictions. Payments received on such pledges are recognized simultaneously as an increase in unrestricted net assets and a decrease in temporarily restricted net assets.

Property and Equipment – Property and equipment are stated at cost, if purchased, or at fair market value, if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and equipment	4–7 years
Computer hardware	3–5 years
Computer software	4–5 years

The Foundation has a capitalization policy of $1,000 for property and equipment.

Fair Value of Financial Statements - Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

Contributions – 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.

Donated Materials and Services – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteers also donated significant amounts of their time in the Foundation's program services.

Income Tax Status – The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, there is no provision for income taxes. Management of the Foundation believes that they have appropriate support for tax positions taken and, as such, do not have any uncertain tax positions that result in a material impact on the Foundation's financial position or statement of activities.

Subsequent Events – Subsequent events were evaluated by management through September 20, 2019, the date on which the financial statements were available to be issued.

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. Arizona Foundation for Legal Services and Education has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all years presented.

Note 2 – Availability and Liquidity

The following represents the Foundation's financial assets at December 31, 2018 and 2017:

Financial assets at year end:	**2018**	**2017**
Cash and cash equivalents	$ 2,297,617	$ 3,287,347
Investments	3,273,767	3,468,465
Accounts receivable	431,852	437,266
Pledges receivable, net - current	37,680	33,116
IOLTA receivable	74,000	48,000
Less contractual or donor-imposed restrictions:		
Restricted by donors with purpose restrictions	(5,690,383)	(6,911,818)
Restricted by donors with time restrictions	(66,215)	(79,488)
Financial assets available to meet cash needs for general expenditure within one year	$ 358,318	$ 282,888

The Foundation's goal is generally to maintain financial assets to meet 30 days of total expenses (approximately $200,000). As part of its liquidity plan, the Foundation maintains the majority of its short term assets in cash accounts, short term investments and short term receivables.

Note 3 – Concentrations of Credit Risk

Financial Instruments which potentially subject the Foundation to concentrations of credit risk consist of cash deposits and investments with financial institutions.

Cash deposits with banks in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) are exposed to loss in the event of nonperformance by the financial institutions. At December 31, 2018, the Foundation had cash on hand of $100 and the carrying amount of the Foundation's deposits was $1,719,098 with a bank balance of $1,111,906. Of the bank balance $856,981 was insured by FDIC/SIPC and $2,478 was uninsured and uncollateralized. At year end, the main operating account had outstanding checks totaling $177,410. If these checks had cleared by December 31st bank balance would have been fully insured. The Foundation has since implemented an ACH process which will help expedite the clearing process of these transactions. At December 31, 2017, the Foundation had cash on hand of $100 and the carrying amount of the Foundation's deposits was $1,719,098 with a bank balance of $1,740,056. Of the bank balance $606,215 was insured by FDIC/SIPC and $1,313,896 was uninsured and uncollateralized. The Foundation generally keeps funds in fully insured investment accounts. However, due to a banking error in December 2017 the funds were temporarily placed in an uninsured cash account at year-end.

Investments and cash held by the brokerage firm are protected up to their net equity value by a combination of coverage provided by Securities Investor Protection Corporation and additional protection purchased from a private insurer by the brokerage firm. Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect account balances and the amounts reported in the accompanying financial statements.

Note 4 – Cash and Cash Equivalents

At year end, cash and cash equivalents consisted of the following:

	2018	2017
Operating cash and cash equivalents		
Cash on hand	$ 100	$ 100
Cash in bank	75,068	48,987
Total operating cash and cash equivalents	75,168	49,087
Cash and cash equivalents held for investment purposes		
Cash in bank	859,428	1,670,111
Money market mutual fund	1,363,021	1,568,149
Total cash and cash equivalents held for investments	2,222,449	3,238,260
Total cash and cash equivalents	$ 2,297,617	$ 3,287,347

Note 5 – Pledges Receivable

Pledges receivable at December 31, 2018 and 2017 represent unconditional promises to give as follows:

	2018	2017
Receivable in less than one year	$ 37,680	$ 33,116
Receivable in one to five years	31,173	47,591
Total pledges receivable, gross	68,853	80,707
Less discount for long-term pledges	(2,638)	(1,219)
Pledges receivable, net	66,215	79,488
Current	37,680	33,116
Long-term	28,535	46,372
Total pledges receivable	$ 66,215	$ 79,488

Long-term pledges are discounted to present value using discount rates provided by the IRS annually, and are between 1.2% and 3.6%. The discounts will be recognized as contribution revenue over future years.

Note 6 – Cash and Investments Held for Board-Designated Endowment, Restricted, and Investment Purposes

The Board has earmarked unrestricted cash and investments to be invested to provide income for a long but unspecified period. The Foundation holds temporarily restricted net assets in a memorial fund set up to honor late State Bar of Arizona members.

The Foundation determines the fair value of financial instruments consistent with FASB ASC 820, Fair Value Measurements and Disclosures. This standard clarifies the definitions of fair value for financial reporting, establishes a hierarchical disclosure framework for measuring fair value, and requires additional disclosures about the use of fair value measurements.

The standard provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - Valuation is based on observable inputs using quoted prices in active markets for identical assets that are accessible at the measurement date.

Level 2 - Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not as active, or valuation methods using models, interest rates and yield curves as observable inputs.

Level 3 - Valuation is based on unobservable inputs for the asset, reflecting assumptions that a market participant would use in pricing the asset, to the extent that observable inputs (Level 1 and 2) are not available. Level 3 assets include situations where there is little or no market activity for the investment and significant management judgment or estimates are required.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017.

Mutual funds - Valued at the net asset value (NAV) of shares held by the Foundation at year-end.

Corporate bonds and equities - Valued at the closing price reported on the active market on which the individual securities are traded.

Negotiable Certificates of deposit - Valued at fair value based on quoted prices of certificates of deposit for the same financial instruments or compared to financial instruments with similar interest rates, maturity, and credit worthiness.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measure. These classifications (Level 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of the future contracts and are not necessarily an indication of risk or liquidity. The fair values of the Foundation's financial assets that are measured on a recurring basis as of December 31, 2018 and 2017 are as follows:

	Hierarchy Level	2018	2017
Endowment/Investment Fund			
Cash in bank		$ 859,428	$ 1,670,111
Money market mutual funds	Level 1	1,362,791	1,568,149
Total cash and cash equivalents		2,222,219	3,238,260
Negotiable certificates of deposit	Level 2	1,840,891	3,249,552
Corporate bonds	Level 2	1,223,370	-
Equity mutual funds	Level 1	-	13,820
Total board designated and investment fund		5,286,480	6,501,632
Temporarily restricted memorial fund			
Money market mutual funds	Level 1	230	-
Corporate equities	Level 1	3,921	4,712
Equity mutual funds	Level 1	205,585	200,381
Total temporarily restricted memorial fund		209,736	205,093
Total cash and investments held for investment purposes		$ 5,496,216	$ 6,706,725

Note 7 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Cost or donated value		
Work in progress	$ 43,000	$ -
Leasehold improvements	19,576	19,576
Furniture and equipment	61,083	83,057
Computer hardware	205,544	173,818
Computer software	78,062	78,062
Total cost or donated value	407,265	354,513
Accumulated depreciation	(300,607)	(293,619)
Property and equipment, net	$ 106,658	$ 60,894

Note 8 – Deferred Revenue

As a result of a Justice Department Settlement with Bank of America executed in 2014, the Foundation received $8,738,233 in 2016. The funds received from the settlement are required to be used in providing funds to legal aid organizations in the state of Arizona for foreclosure prevention legal assistance and community redevelopment legal assistance. The Foundation awarded grants of $1,504,716 and $1,517,336 during fiscal year 2018 and 2017 respectively, which meet the requirements of the award, at which time the respective revenue was recognized and included in contract revenue in the statement of activities. Management has evaluated this involuntary settlement and determined that the Foundation is carrying out specific requirements on behalf of Bank of America and has therefore concluded that this revenue should be recognized in a manner similar to an exchange transaction. As a result, deferred revenue of $5,038,668 and $6,543,688 is reported in the statements of net position for the unspent portion of these amounts at December 31, 2018 and 2017, respectively.

Deferred revenue consisted of the following at December 31:

	2018	2017
Unspent Bank of America Settlement funds	$ 5,038,668	$ 6,543,688
Unearned grants and contracts revenue	132,417	84,325
Total deferred revenue	$ 5,171,085	$ 6,628,013

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31:

	2018	2017
Purpose restrictions		
Memorial fund-		
Jonathan Schubert	$ 124,182	$ 130,195
John J. Ross	57,381	63,138
John Sticht	8,434	9,779
Frank Fanning	3,115	982
Kathleen Masters	431	449
Georgia Ellexson	625	550
Total memorial fund	194,168	205,093
Total purpose restrictions	194,168	205,093
Time restrictions		
Pledges receivable for unrestricted purposes	66,215	79,488
Total time restrictions	66,215	79,488
Total net assets with donor restrictions	$ 260,383	$ 284,581

Net assets were released from restrictions for the years ended December 31 as follows:

	2018	2017
Purpose restrictions met	$ 7,682	$ 505
Time restrictions met	20,254	28,175
	$ 27,936	$ 28,680

Note 10 – Donated Services

The value of donated services included as contributions in the financial statements and the corresponding program expenses for years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Legal services		
Legal services and assistance	$ 124,077	$ 254,645
Websites	30,847	83,730
Law related education		
We the people	55,379	48,512
Mock trial	30,970	44,321
Project citizen	1,613	362
Law related education	8,020	5,134
Kids voting AZ	1,884	-
Total donated services	$ 252,790	$ 436,704

Note 11 – Interest on Lawyers' Trust Accounts (IOLTA)

The IOLTA program was created in 1984 by a rule of the Supreme Court of Arizona. This rule requires all lawyers who receive client funds in Arizona to maintain an interest-bearing trust account. The net interest earnings on these accounts are remitted to the Foundation. These earnings are to be used solely for the following purposes: to pay the actual administrative costs of this interest or earnings on lawyers' trust accounts (IOLTA) program; to fund programs designated to assist in the delivery of legal services to the poor; to support law-related education programs designed to teach young people, educators, and other adults about the law, the legal process, and the legal system; to fund studies or programs designed to improve the administration of justice; and to maintain a reasonable reserve therefor.

Note 12 – Retirement Plan

During 2007, the Foundation formed a 401(k) retirement plan exclusive to the Foundation. In prior years, the Foundation employees were covered under a defined contribution plan sponsored by the State Bar of Arizona and a 401(k) plan, also administered by the State Bar of Arizona. Under the new plan, employees are eligible for enrollment after being employed at the Foundation for at least six months and may enter the plan in January or July after the service requirement has been met. Vesting of employer contributions is 20% after two years, 40% after three years, 60% after four years, and 100% after five years of service. Employee contributions are always fully vested.

The Foundation, at its sole discretion, contributes on behalf of each eligible participant in the plan an amount equal to 7.0% of the participant's compensation to the federal social security wage limit. After the wage limit is met, the Foundation contributes an additional 5.7% of each eligible participant's compensation in excess of the wage limit. The Foundation contributed $78,442 and $36,357 for the plan year ended December 31, 2018 and 2017, respectively.

Note 13 - Related Party Transactions

The Foundation currently leases 4,962 square feet of office space from the State Bar of Arizona under a 10 year operating lease agreement, which went into effect March 1, 2018. Rental payments under the terms of the operating lease were $89,435 and $133,943 for the years ended December 31, 2018 and 2017, respectively.

The future minimum payments required under the operating lease at December 31, 2018, were as follows:

Years ending December 31,	
2019	94,278
2020	94,278
2021	94,278
2022	94,278
2023	94,278
Thereafter	403,163
Total minimum lease payments	$ 874,553

Single Audit Section

Arizona Foundation for Legal Services and Education
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Grantor/ Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Justice			
Crime Victim Assistance/Discretionary Grants	16.582	2018-V3-GX-K010	$ 6,435
Total U.S. Department of Education			6,435
U.S. Department of Education			
Passed through the Center for Civic Education -	84.367D	U367D150010	
Supporting Effective Educator Development			
Grant Program			60,502
Total U.S. Department of Education			60,502
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Economic			
Security -			
Temporary Assistance for Needy Families	93.558	ADES18-202037	1,012,348
Total U.S. Department of Health and			
Human Services			1,012,348
Total expenditures of federal awards			$ 1,079,285

See accompanying notes to the schedule of expenditures of federal awards.

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Arizona Foundation for Legal Services and Education ("Foundation") and is presented on the accrual basis of accounting. The information in this schedule 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* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used.

Note 3 – Temporary Assistance for Needy Families block grant

The Temporary Assistance for Needy Families (TANF) block grant is authorized by the federal government and provides federal assistance to states to operate their own programs designed to help low-income families. The TANF block grant is managed by the U.S. Department of Health and Human Services (DHHS). The Arizona Department of Economic Security (DES) is responsible for the administration of Arizona's state-operated TANF program as outlined in Arizona's State Plan for TANF. The Arizona State Plan for TANF is a written document submitted to DHHS which outlines the State of Arizona's plan for administering the TANF program in a manner that conforms to the federal requirements. As defined in the Arizona State Plan for TANF, the Foundation receives TANF financial assistance through DES to operate a statewide system of legal and lay-legal advocacy services to victims of domestic violence and their children.

Note 4 - Reporting of Commingled Financial Assistance

States receiving federal TANF funding are required to spend their own state dollars in order to meet required maintenance of effort (MOE) levels. The amount reported on the Foundation's Schedule of Expenditures of Federal Awards as TANF program expenditures contains both the TANF federal block award dollars and Arizona state MOE appropriations.

Note 5 – Subrecipients

As stated in the TANF block grant, a percentage of TANF funds are allocated to the Foundation to mitigate the Foundation's costs associated with administering the program; all other award dollars are passed through directly to qualified subrecipients as follows:

Program Title	CFDA Number	Provided to Subrecipients
Temporary Assistance for Needy Families	93.558	$ 981,577

Note 5 – Indirect Costs

The Foundation elected not to use the 10 percent de minimis indirect cost rate.

❖ Snyder & Butler, CPAs, PLLC

Independent Auditor's 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*

To the Board of Directors
Arizona Foundation for Legal Services and Education

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 Arizona Foundation for Legal Services and Education ("Foundation"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Foundation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 the Foundation'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.

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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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Snyder & Butler, CPAs, PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
September 20, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Arizona Foundation for Legal Services and Education

Report on Compliance for Each Major Federal Program
We have audited the Arizona Foundation for Legal Services and Education's ("Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2018. The Foundation'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 the Foundation'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; and 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)*. 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 the Foundation'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 the Foundation's compliance.

Opinion on Each Major Federal Program
In our opinion, the Foundation 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 December 31, 2018.

Report on Internal Control Over Compliance
Management of the Foundation 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 the Foundation'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 the Foundation'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Snyder + Butler, CPAs PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
September 20, 2019

Arizona Foundation for Legal Services and Education
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2018

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	No (None reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	No (None reported)
Type of auditor's report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 500.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Other Matters

Auditee's summary schedule of prior audit findings	No