

**Arizona Foundation for Legal Services and Education
Financial Statements and Independent Auditor's Report for the Years Ending
December 31, 2020 and 2019**

**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, 2020**

Arizona Foundation for Legal Services and Education
December 31, 2020 and 2019
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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 (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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.

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, 2020 and 2019, 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 June 30, 2021, on our consideration of 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 Arizona Foundation for Legal Services and Education's internal control over financial reporting and compliance.



Snyder & Butler, CPAs, PLLC
Tempe, Arizona
June 30, 2021

Financial Statements

Arizona Foundation for Legal Services and Education
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 93,852	\$ 167,363
Investments	516,288	300,260
Grants receivable, net	470,513	431,960
Pledges receivable, net	49,416	37,741
IOLTA receivable	53,000	74,000
Other receivable, net	35,222	56,328
Prepaid expenses	79,899	37,355
Total current assets	1,298,190	1,105,007
Non-current assets:		
Property and equipment, net	172,949	114,742
Pledges receivable, net of discount	24,566	25,359
Cash and investments held for restricted purposes		
Cash and cash equivalents	656,730	2,305,288
Investments	1,870,201	1,472,581
Total noncurrent assets	2,724,446	3,917,970
Total assets	\$ 4,022,636	\$ 5,022,977
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 60,589	\$ 132,020
Accrued liabilities	185,778	225,265
Deferred revenues	2,393,527	3,637,912
Current portion of long-term debt	79,542	-
Total current liabilities	2,719,436	3,995,197
Long-term debt, less current maturities	220,458	-
Total liabilities	2,939,894	3,995,197
Net assets:		
Without donor restriction	743,504	725,750
With donor restriction	339,238	302,030
Total net assets	1,082,742	1,027,780
Total liabilities and net assets	\$ 4,022,636	\$ 5,022,977

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Activities
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and gains:						
IOLTA	\$ 812,071	\$ -	\$ 812,071	\$ 932,766	\$ -	\$ 932,766
Federal and state grants	3,531,803	-	3,531,803	4,246,323	-	4,246,323
Contributions	231,618	31,456	263,074	453,421	16,887	470,308
SBA legal services contributions	125,000	-	125,000	125,000	-	125,000
Mock Trial registration and fees	31,560	-	31,560	30,988	-	30,988
SBA dues for pro bono	95,166	-	95,166	105,350	-	105,350
Pro Hac Vice	80,000	-	80,000	66,079	-	66,079
Program and fees	155,450	-	155,450	128,879	-	128,879
Working poor tax credit	500	-	500	4,550	-	4,550
Interest	15,442	3	15,445	12,418	6	12,424
Net gain (loss) on investments	(12,527)	28,339	15,812	(8,700)	50,130	41,430
Other income	3,556	-	3,556	593	-	593
Net assets released from restrictions	22,590	(22,590)	-	25,376	(25,376)	-
Total revenues, support, and gains	<u>5,092,229</u>	<u>37,208</u>	<u>5,129,437</u>	<u>6,123,043</u>	<u>41,647</u>	<u>6,164,690</u>
Expenses and losses:						
Program services:						
Legal services	3,850,269	-	3,850,269	4,584,039	-	4,584,039
Law related education	945,213	-	945,213	952,752	-	952,752
Support services:						
Management and general	232,147	-	232,147	233,834	-	233,834
Fundraising	46,846	-	46,846	92,678	-	92,678
Total expenses	<u>5,074,475</u>	<u>-</u>	<u>5,074,475</u>	<u>5,863,303</u>	<u>-</u>	<u>5,863,303</u>
Change in net assets	17,754	37,208	54,962	259,740	41,647	301,387
Net assets, beginning of year	725,750	302,030	1,027,780	466,010	260,383	726,393
Net assets, end of year	<u>\$ 743,504</u>	<u>\$ 339,238</u>	<u>\$ 1,082,742</u>	<u>\$ 725,750</u>	<u>\$ 302,030</u>	<u>\$ 1,027,780</u>

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019

	2020					
	Program Services		Supporting Services			
	Law Related Education	Legal & Technology Services	Total Program	Management and General		
Salaries	\$ 494,101	\$ 744,658	\$ 1,238,759	\$ 120,116	\$ 35,189	\$ 1,394,064
Employee benefits	80,495	91,589	172,084	12,328	2,298	186,710
Payroll taxes	35,148	54,285	89,433	8,494	2,307	100,234
Total payroll and related	609,744	890,532	1,500,276	140,938	39,794	1,681,008
Other expenses						
Grantee assistance	75,626	2,578,797	2,654,423	-	-	2,654,423
Professional services	157,435	249,046	406,481	35,476	2,354	444,311
Facility and equipment rentals	42,616	53,279	95,895	8,511	1,421	105,827
Travel and Training	-	2,163	2,163	9,795	-	11,958
Gifts and awards	6,755	5,910	12,665	2,302	500	15,467
Dues and memberships	5,187	14,834	20,021	12,425	33	32,479
Depreciation	10,623	14,320	24,943	1,993	376	27,312
Communication	13,400	19,987	33,387	2,325	511	36,223
Supplies and equipment	4,492	16,428	20,920	4,183	59	25,162
Printing and postage	19,335	4,973	24,308	1,521	1,798	27,627
Insurance				12,678	-	12,678
Total functional expenses	\$ 945,213	\$ 3,850,269	\$ 4,795,482	\$ 232,147	\$ 46,846	\$ 5,074,475

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019

(continued)

	2019					
	Program Services		Supporting Services			
	Law Related Education	Legal & Technology Services	Total Program	Management and General		
Salaries	\$ 448,125	\$ 811,011	\$ 1,259,136	\$ 116,499	\$ 56,433	\$ 1,432,068
Employee benefits	67,480	86,434	153,914	11,824	5,470	171,208
Payroll taxes	33,106	59,569	92,675	8,276	3,963	104,914
Total payroll and related	548,711	957,014	1,505,725	136,599	65,866	1,708,190
Other Expenses						
Grantee assistance	122,332	3,114,012	3,236,344	-	-	3,236,344
Professional services	190,273	348,414	538,687	29,201	3,219	571,107
Facility and equipment rentals	42,111	57,398	99,509	7,274	2,865	109,648
Travel and Training	6,399	7,482	13,881	21,989	13,784	49,654
Gifts and awards	9,460	5,352	14,812	2,203	2,253	19,268
Dues and memberships	2,251	21,970	24,221	11,777	51	36,049
Depreciation	8,723	19,930	28,653	1,861	694	31,208
Communication	11,558	20,070	31,628	2,494	1,058	35,180
Supplies and equipment	4,982	20,838	25,820	6,222	449	32,491
Printing and postage	5,952	11,559	17,511	2,463	2,439	22,413
Insurance	-	-	-	11,751	-	11,751
Total functional expenses	\$ 952,752	\$ 4,584,039	\$ 5,536,791	\$ 233,834	\$ 92,678	\$ 5,863,303

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 54,962	\$ 301,387
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	27,312	31,208
Net unrealized losses (gains) on investments	(15,812)	(41,430)
Changes in operating assets and liabilities		
IOLTA receivable	21,000	-
Grants receivable	(38,553)	(82,411)
Pledges receivable	(10,882)	3,115
Other receivable	21,106	25,975
Prepaid expenses	(42,544)	(2,999)
Accounts payable	(71,431)	82,293
Accrued expenses	(39,487)	(111,995)
Deferred revenue	(1,244,385)	(1,533,173)
Net cash used by operating activities	(1,338,714)	(1,328,030)
Cash flows from investing activities:		
Net (purchase) sale of investments	(597,836)	1,542,356
Purchases of equipment	(85,519)	(39,292)
Net cash provided (used) by investing activities	(683,355)	1,503,064
Cash flows from financing activities:		
Proceeds from issuance of notes payable	300,000	-
Net cash provided by investing activities	300,000	-
Net increase (decrease) in cash and cash equivalents	(1,722,069)	175,034
Cash and cash equivalents, beginning of year	2,472,651	2,297,617
Cash and cash equivalents, end of year	\$ 750,582	\$ 2,472,651

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

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 June 30, 2021, the date on which the financial statements were available to be issued.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

Note 2 – Availability and Liquidity

The following represents the Foundation’s financial assets at December 31, 2020 and 2019:

Financial assets at year end:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 750,582	\$ 2,472,651
Investments	2,386,489	1,772,841
Grants receivable	470,513	431,960
Pledges receivable, net - current	49,416	37,741
IOLTA receivable	53,000	74,000
Other receivable, net	35,222	56,328
Less contractual or donor-imposed restrictions:		
Restricted by donors with purpose restrictions	(339,238)	(302,030)
Contractually restricted advance funding	<u>(2,393,527)</u>	<u>(3,637,912)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,012,457</u>	<u>\$ 905,579</u>

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, 2020, the Foundation had cash on hand of \$250 and the carrying amount of the Foundation’s deposits was \$637,423 with a bank balance of \$672,366. The bank balance was fully insured by FDIC/SIPC at December 31, 2020. At December 31, 2019, the Foundation had cash on hand of \$250 and the carrying amount of the Foundation’s deposits was \$1,085,508 with a bank balance of \$1,086,878. The bank balance was fully insured by FDIC/SIPC at December 31, 2019.

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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

Note 4 – Cash and Cash Equivalents

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

	<u>2020</u>	<u>2019</u>
Operating cash and cash equivalents		
Cash on hand	\$ 250	\$ 250
Cash in bank	93,602	167,113
Total operating cash and cash equivalents	<u>93,852</u>	<u>167,363</u>
Cash and cash equivalents held for investment purposes		
Cash in bank	543,821	918,395
Money market mutual fund	112,909	1,386,893
Total cash and cash equivalents held for investments	<u>656,730</u>	<u>2,305,288</u>
Total cash and cash equivalents	<u>\$ 750,582</u>	<u>\$ 2,472,651</u>

Note 5 – Pledges Receivable

Pledges receivable at December 31, 2020 and 2019 represent unconditional promises to give as follows:

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 49,416	\$ 37,741
Receivable in one to five years	26,486	27,810
Total pledges receivable, gross	75,902	65,551
Less discount for long-term pledges	(1,920)	(2,451)
Pledges receivable, net	<u>73,982</u>	<u>63,100</u>
Current	49,416	37,741
Long-term	24,566	25,359
Total pledges receivable	<u>\$ 73,982</u>	<u>\$ 63,100</u>

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

The Board has earmarked unrestricted cash and investments to be invested to provide income for a long but unspecified period. Certain cash and investments are restricted for specified purposes, included amounts reported as deferred revenue relating to the Bank of America settlement discussed in Note 8. The Foundation has reported \$2,526,931 and \$3,777,869 of restricted cash and investments at December 31, 2020 and 2019, respectively.

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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019.

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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
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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, 2020 and 2019 are as follows:

	<u>Hierarchy Level</u>	<u>2020</u>	<u>2019</u>
Cash in bank		\$ 543,821	\$ 918,395
Money market mutual funds	Level 1	112,909	1,386,893
Total cash and cash equivalents		<u>656,730</u>	<u>2,305,288</u>
Negotiable certificates of deposit	Level 2	245,209	257,193
Corporate bonds	Level 2	2,095,168	1,254,123
Corporate equities	Level 1	7,763	5,806
Equity mutual funds	Level 1	38,349	255,719
Total investments		<u>2,386,489</u>	<u>1,772,841</u>

Note 7 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Cost or donated value		
Work in progress	\$ 101,297	\$ 49,928
Leasehold improvements	19,576	19,576
Furniture and equipment	84,782	75,282
Computer hardware	144,869	141,192
Computer software	98,683	78,102
Total cost or donated value	<u>449,207</u>	<u>364,080</u>
Accumulated depreciation	(276,258)	(249,338)
Property and equipment, net	<u>\$ 172,949</u>	<u>\$ 114,742</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

Note 8 – Long-term debt

In April 2020 the Foundation entered into a loan agreement with National Bank of Arizona through the Paycheck Protection Program with an original principal amount of \$300,000, maturing in 2023. The funds are to be used for purposes authorized the Paycheck Protection Program Act. The loan has an annual interest rate of 1% with interest accruing immediately. Monthly payments start August 2021. If used for allowable purposes under the program the full balance of the loan and accrued interest can be forgiven under the program. The loan was forgiven in 2021.

	<u>\$ 300,000</u>
Less: current portion	<u>(79,542)</u>
Long-term portion	<u>\$ 220,458</u>

The following is a schedule of future long-term debt payments due:

Year ending December 31,	
2021	\$ 79,542
2022	201,314
2023	19,144
	<u>\$ 300,000</u>

Note 9 – 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 \$1,306,126 and \$1,602,393 during fiscal year 2020 and 2019 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. As a result, deferred revenue of \$2,261,675 and \$3,538,939 is reported in the statements of net position for the unspent portion of these amounts at December 31, 2020 and 2019, respectively.

Deferred revenue consisted of the following at December 31:

	2020	2019
Unspent Bank of America Settlement funds	\$ 2,261,675	\$ 3,538,939
Unearned grants and contracts revenue	131,852	98,973
Total deferred revenue	<u>\$ 2,393,527</u>	<u>\$ 3,637,912</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

Note 10 – Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Purpose restrictions		
Memorial fund-		
Jonathan Schubert	\$ 173,378	\$ 155,894
John J. Ross	74,890	68,274
John Sticht	11,948	10,674
Frank Fanning	3,545	2,752
Kathleen Masters	611	546
Georgia Ellexson	884	790
Total memorial fund	<u>265,256</u>	<u>238,930</u>
Total purpose restrictions	<u>265,256</u>	<u>238,930</u>
Time restrictions		
Pledges receivable for unrestricted purposes	<u>73,982</u>	<u>63,100</u>
Total time restrictions	<u>73,982</u>	<u>63,100</u>
Total net assets with donor restrictions	<u>\$ 339,238</u>	<u>\$ 302,030</u>

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

	<u>2020</u>	<u>2019</u>
Purpose restrictions met	\$ 2,431	\$ 5,474
Time restrictions met	20,159	19,902
	<u>\$ 22,590</u>	<u>\$ 25,376</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

Note 11 – Donated Services

The value of donated services included as contributions in the financial statements and the corresponding program expenses for years ended December 31, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Administrative	\$ -	\$ 50
Legal services		
Legal services and assistance	38,408	82,562
Technology	20,220	29,307
Websites	-	137,330
Outreach-hotline	44,974	-
Law related education		
We the people	16,604	15,562
Mock trial	23,145	34,265
Project citizen	504	2,906
I-Civic	513	-
Kids voting AZ	27,950	39,541
Total donated services	<u>\$ 172,318</u>	<u>\$ 341,523</u>

Note 12 – 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 13 – 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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2020 and 2019

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 did not make any contributions to the plan during the year ended December 31, 2020 or 2019.

Note 14 - 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 \$101,598 and \$100,198 for the years ended December 31, 2020 and 2019, respectively.

The future minimum payments required under the operating lease at December 31, 2020, were as follows:

Years ending December 31,	
2021	94,278
2022	94,278
2023	96,346
2024	96,759
2025	96,759
Thereafter	217,708
Total minimum lease payments	<u>\$ 696,128</u>

Note 15 – Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. The COVID-19 outbreak has resulted in significant economic uncertainties. Management is unable to quantify the potential effects of this pandemic on future financial statements. In an effort to help small businesses and eligible nonprofit organizations during the State’s imposed operating restrictions on businesses to address the outbreak, the United States government established the Paycheck Protection Program (PPP) through the CARES Act. The PPP allows eligible organizations to obtain forgivable loans to cover up to 24 weeks of payroll and benefit cost. The program also allows funds to be used to pay interest on mortgages, rent and utilities. The Organization received a PPP forgivable loan in fiscal year 2020 for \$300,000. The loan was forgiven in 2021. The Foundation entered into a second PPP forgivable loan agreement in February 2021 for \$300,000. Management expects that this loan will be forgiven.

Single Audit Section

**Arizona Foundation for Legal Services and Education
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

<u>Federal Grantor/ Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Justice			
Crime Victim Assistance/Discretionary Grants	16.582	2018-V3-GX-K010	\$ 429,935
Total U.S. Department of Justice			<u>429,935</u>
U.S. Department of Education			
Passed through the Center for Civic Education - Project Citizen Research Program			
Grant Program	84.367D	R305A190360	20,098
Total U.S. Department of Education			<u>20,098</u>
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	940,877
Total U.S. Department of Health and Human Services			<u>940,877</u>
Total expenditures of federal awards			<u>\$ 1,390,910</u>

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

**Arizona Foundation for Legal Services and Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

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 2020 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. Further, in 2020 the Foundation received funding from the Department of Justice for the Crime Victim Assistance/Discretionary Grants program. A portion of these funds were also passed through to qualified subrecipients. Total funds passed through for 2020 were as follows:

**Arizona Foundation for Legal Services and Education
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Provided to Subrecipients</u>
Temporary Assistance for Needy Families	93.558	\$ 906,920
Crime Victim Assistance/Discretionary Grants	16.582	265,000

Note 6 – Indirect Costs

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

**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 Arizona Foundation for Legal Services and Education ("Foundation"), which comprise the statement of financial position as of December 31, 2020, 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 June 30, 2021.

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.

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
Tempe, Arizona
June 30, 2021

**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, 2020. 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, 2020.

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
Tempe, Arizona
June 30, 2021

**Arizona Foundation for Legal Services and Education
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2020**

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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.582	Crime Victim Assistance/Discretionary Grants

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
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