

**Arizona Foundation for Legal Services and Education
Financial Statements and Independent Auditor's Report for the Years Ending
December 31, 2021 and 2020**

**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, 2021**

Arizona Foundation for Legal Services and Education
December 31, 2021 and 2020
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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Arizona Foundation for Legal Services and Education (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arizona Foundation for Legal Services and Education as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arizona Foundation for Legal Services and Education and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Foundation for Legal Services and Education's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arizona Foundation for Legal Services and Education's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arizona Foundation for Legal Services and Education's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

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 August 17, 2022, 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 & Brown CPAs, PLLC

Tempe, Arizona

August 17, 2022

Financial Statements

Arizona Foundation for Legal Services and Education
Statements of Financial Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 726,248	\$ 93,852
Investments	43,427	516,288
Grants receivable, net	225,946	470,513
Pledges receivable, net	44,356	49,416
IOLTA receivable	55,000	53,000
Other receivable, net	122,910	35,222
Prepaid expenses	56,694	79,899
Total current assets	<u>1,274,581</u>	<u>1,298,190</u>
Non-current assets:		
Property and equipment, net	186,030	172,949
Pledges receivable, net of discount	19,188	24,566
Employee retention tax credit receivable	257,114	-
Cash and investments held for restricted purposes		
Cash and cash equivalents	1,565,334	656,730
Investments	258,506	1,870,201
Total noncurrent assets	<u>2,286,172</u>	<u>2,724,446</u>
Total assets	<u>\$ 3,560,753</u>	<u>\$ 4,022,636</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 43,673	\$ 60,589
Accrued liabilities	178,085	185,778
Deferred revenues	1,620,940	2,393,527
Current portion of long-term debt	37,020	79,542
Total current liabilities	<u>1,879,718</u>	<u>2,719,436</u>
Long-term debt, less current maturities	<u>262,980</u>	<u>220,458</u>
Total liabilities	<u>2,142,698</u>	<u>2,939,894</u>
Net assets:		
Without donor restriction	1,095,770	743,504
With donor restriction	322,285	339,238
Total net assets	<u>1,418,055</u>	<u>1,082,742</u>
Total liabilities and net assets	<u>\$ 3,560,753</u>	<u>\$ 4,022,636</u>

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Activities
For the Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and gains:						
IOLTA	\$ 642,366	\$ -	\$ 642,366	\$ 812,071	\$ -	\$ 812,071
Federal and state grants	2,743,978	-	2,743,978	3,531,803	-	3,531,803
Contributions	301,825	8,498	310,323	231,618	31,456	263,074
SBA legal services contributions	132,548	-	132,548	125,000	-	125,000
Mock Trial registration and fees	28,680	-	28,680	31,560	-	31,560
SBA dues for pro bono	112,544	-	112,544	95,166	-	95,166
Pro Hac Vice	75,000	-	75,000	80,000	-	80,000
Program and fees	148,909	-	148,909	155,450	-	155,450
Working poor tax credit	-	-	-	500	-	500
Forgiveness of debt	300,000	-	300,000	-	-	-
Employee retention tax credit revenue	257,114	-	257,114	-	-	-
Interest	5,176	3	5,179	15,442	3	15,445
Net gain (loss) on investments	(2,541)	8,986	6,445	(12,527)	28,339	15,812
Loss on sale of asset	(346)	-	(346)			
Other income	-	-	-	3,556	-	3,556
Net assets released from restrictions	34,440	(34,440)	-	22,590	(22,590)	-
Total revenues, support, and gains	<u>4,779,693</u>	<u>(16,953)</u>	<u>4,762,740</u>	<u>5,092,229</u>	<u>37,208</u>	<u>5,129,437</u>
Expenses and losses:						
Program services:						
Legal services	2,986,659	-	2,986,659	3,850,269	-	3,850,269
Law related education	1,105,663	-	1,105,663	945,213	-	945,213
Support services:						
Management and general	271,316	-	271,316	232,147	-	232,147
Fundraising	63,789	-	63,789	46,846	-	46,846
Total expenses	<u>4,427,427</u>	<u>-</u>	<u>4,427,427</u>	<u>5,074,475</u>	<u>-</u>	<u>5,074,475</u>
Change in net assets	352,266	(16,953)	335,313	17,754	37,208	54,962
Net assets, beginning of year	743,504	339,238	1,082,742	725,750	302,030	1,027,780
Net assets, end of year	<u>\$ 1,095,770</u>	<u>\$ 322,285</u>	<u>\$ 1,418,055</u>	<u>\$ 743,504</u>	<u>\$ 339,238</u>	<u>\$ 1,082,742</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, 2021 and 2020

	2021					
	Program Services			Supporting Services		
	Law Related Education	Legal & Technology Services	Total Program	Management and General	Fundraising	Total
Salaries	\$ 596,003	\$ 707,624	\$ 1,303,627	\$ 146,652	\$ 49,009	\$ 1,499,288
Employee benefits	72,906	69,039	141,945	15,290	3,421	160,656
Payroll taxes	43,426	48,696	92,122	10,178	3,159	105,459
Total payroll and related	<u>712,335</u>	<u>825,359</u>	<u>1,537,694</u>	<u>172,120</u>	<u>55,589</u>	<u>1,765,403</u>
Other expenses						
Grantee assistance	102,389	1,857,528	1,959,917	-	-	1,959,917
Professional services	182,175	178,593	360,768	38,547	1,645	400,960
Facility and equipment rentals	45,157	46,461	91,618	10,997	2,045	104,660
Travel and Training	-	588	588	1,684	69	2,341
Gifts and awards	13,110	4,620	17,730	4,615	3,064	25,409
Dues and memberships	3,132	20,951	24,083	18,185	50	42,318
Depreciation	11,127	11,448	22,575	2,169	503	25,247
Communication	14,731	16,796	31,527	2,525	685	34,737
Supplies and equipment	13,504	13,670	27,174	3,291	-	30,465
Printing and postage	8,003	10,645	18,648	4,138	139	22,925
Insurance	-	-	-	13,045	-	13,045
Total functional expenses	<u>\$ 1,105,663</u>	<u>\$ 2,986,659</u>	<u>\$ 4,092,322</u>	<u>\$ 271,316</u>	<u>\$ 63,789</u>	<u>\$ 4,427,427</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, 2021 and 2020

(continued)

	2020					
	Program Services			Supporting Services		
	Law Related Education	Legal & Technology Services	Total Program	Management and General	Fundraising	Total
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	<u>\$ 945,213</u>	<u>\$ 3,850,269</u>	<u>\$ 4,795,482</u>	<u>\$ 232,147</u>	<u>\$ 46,846</u>	<u>\$ 5,074,475</u>

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 335,313	\$ 54,962
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	25,247	27,312
Forgiveness of debt	(300,000)	-
Net unrealized losses (gains) on investments	(6,445)	(15,812)
Changes in operating assets and liabilities		
IOLTA receivable	(2,000)	21,000
Grants receivable	244,567	(38,553)
Pledges receivable	10,438	(10,882)
Employee retention tax credit receivable	(257,114)	-
Other receivable	(87,688)	21,106
Prepaid expenses	23,205	(42,544)
Accounts payable	(16,916)	(71,431)
Accrued expenses	(7,693)	(39,487)
Deferred revenue	(772,587)	(1,244,385)
Net cash used by operating activities	<u>(811,673)</u>	<u>(1,338,714)</u>
Cash flows from investing activities:		
Net (purchase) sale of investments	2,091,001	(597,836)
Purchases of equipment	(38,328)	(85,519)
Net cash provided (used) by investing activities	<u>2,052,673</u>	<u>(683,355)</u>
Cash flows from financing activities:		
Proceeds from issuance of notes payable	300,000	300,000
Net cash provided by investing activities	<u>300,000</u>	<u>300,000</u>
Net increase (decrease) in cash and cash equivalents	1,541,000	(1,722,069)
Cash and cash equivalents, beginning of year	<u>750,582</u>	<u>2,472,651</u>
Cash and cash equivalents, end of year	<u>\$ 2,291,582</u>	<u>\$ 750,582</u>

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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.

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, 2021 and 2020

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.

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses. Most costs are directly identifiable with specific program. Certain other costs have been allocated among the programs and supporting services benefited based on estimated time and effort expended for each function.

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 August 17, 2022, the date on which the financial statements were available to be issued.

New Accounting Pronouncement:

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

Arizona Foundation for Legal Services and Education implemented these standards for 2020. However, these ASUs did not have a material impact on the financial statements.

Revenue Recognition:

IOLTA revenues - 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. The revenues are recognized in the period that the interest is earned.

Federal and state grants - The Foundation receives various federal and state grant revenues. The Foundation recognizes grant revenue as expenses are incurred. Based on the nature of these contracts, government fees and grants are recognized as revenue in the financial statements utilizing the contribution guidance in Topic 958.

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.

Mock trial and program fees - The Foundation receives fees for services provided to program participants. Related revenues are recognized in the period the programs are implemented.

Pro Hac Vice and SBA dues for pro bono - The Foundation receives a portion of fees paid by attorneys to the Arizona State Bar. The fees are collected by the Bar and passed through to the Foundation and are provided to legal service organizations. The revenues are recognized by the Foundation in the period the fees are due.

Employee retention tax credit - Employee retention credits act as fully refundable credits against the Foundation's portion of Social Security taxes based on the amount of qualified wages that the Foundation has incurred. Revenues are recognized at the time eligibility is determined. Laws and regulations concerning government programs, including the Employee Retention Credit established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Foundation's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Foundation.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

PPP loan forgiveness: During fiscal year 2021 the Foundation received full forgiveness of its first PPP loan. The revenues were recognized at the time the loan forgiveness was approved.

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.

Note 2 – Availability and Liquidity

The following represents the Foundation's financial assets at December 31, 2021 and 2020:

Financial assets at year end:	2021	2020
Cash and cash equivalents	\$ 2,291,582	\$ 750,582
Investments	301,933	2,386,489
Grants receivable	225,946	470,513
Pledges receivable, net - current	44,356	49,416
IOLTA receivable	55,000	53,000
Employee retention tax credit receivable	257,114	-
Other receivable, net	122,910	35,222
Less contractual or donor-imposed restrictions:		
Restricted by donors with purpose restrictions	(322,285)	(339,238)
Contractually restricted advance funding	(1,620,940)	(2,393,527)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,355,616</u>	<u>\$ 1,012,457</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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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, 2021, the Foundation had cash on hand of \$250 and the carrying amount of the Foundation's deposits was \$2,291,097 with a bank balance of \$2,298,816. The bank balance was fully insured by FDIC/SIPC at December 31, 2021. 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, 2021.

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:

	<u>2021</u>	<u>2020</u>
Operating cash and cash equivalents		
Cash on hand	\$ 250	\$ 250
Cash in bank	2,017,362	93,602
Total operating cash and cash equivalents	<u>2,017,612</u>	<u>93,852</u>
Cash and cash equivalents held for investment purposes		
Cash in bank	273,735	543,821
Money market mutual fund	235	112,909
Total cash and cash equivalents held for investments	<u>273,970</u>	<u>656,730</u>
Total cash and cash equivalents	<u>\$ 2,291,582</u>	<u>\$ 750,582</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

Note 5 – Pledges Receivable

Pledges receivable at December 31, 2021 and 2020 represent unconditional promises to give as follows:

	2021	2020
Receivable in less than one year	\$ 44,356	\$ 49,416
Receivable in one to five years	21,446	26,486
Total pledges receivable, gross	65,802	75,902
Less discount for long-term pledges	(2,258)	(1,920)
Pledges receivable, net	<u>63,544</u>	<u>73,982</u>
Current	44,356	49,416
Long-term	19,188	24,566
Total pledges receivable	<u>\$ 63,544</u>	<u>\$ 73,982</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 \$1,823,840 and \$2,526,931 of restricted cash and investments at December 31, 2021 and 2020, 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.

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.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020.

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, 2021 and 2020 are as follows:

	<u>Hierarchy Level</u>	<u>2021</u>	<u>2020</u>
Cash in bank		\$ 273,735	\$ 543,821
Money market mutual funds	Level 1	235	112,909
Total cash and cash equivalents		<u>273,970</u>	<u>656,730</u>
Negotiable certificates of deposit	Level 2	246,680	245,209
Corporate bonds	Level 2	-	2,095,168
Corporate equities	Level 1	9,893	7,763
Equity mutual funds	Level 1	45,360	38,349
Total reported investments		<u>301,933</u>	<u>2,386,489</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

Note 7 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Cost or donated value		
Work in progress	\$ 109,708	\$ 101,297
Leasehold improvements	19,576	19,576
Furniture and equipment	83,785	84,782
Computer hardware	160,032	144,869
Computer software	88,128	98,683
Total cost or donated value	<u>461,229</u>	<u>449,207</u>
Accumulated depreciation	(275,199)	(276,258)
Property and equipment, net	<u><u>\$ 186,030</u></u>	<u><u>\$ 172,949</u></u>

Note 8 – Long-term debt

	<u>2021</u>	<u>2020</u>
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 were used for purposes authorized the Paycheck Protection Program Act. The loan was forgiven in 2021.	\$ -	\$ 300,000
In February 2021 the Foundation entered into a second loan agreement with National Bank of Arizona through the Paycheck Protection Program with an original principal amount of \$300,000, maturing in 2026. The funds were used for purposes authorized the Paycheck Protection Program Act. The loan has an annual interest rate of 1% with interest accruing immediately. The loan is expected to be forgiven in 2022.	300,000	-
Less: current portion	(37,020)	(79,542)
Long-term portion	<u><u>\$ 262,980</u></u>	<u><u>\$ 220,458</u></u>

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

Year ending December 31,	
2022	\$ 37,020
2023	82,148
2024	82,973
2025	90,829
2026	7,030
	<u><u>\$ 300,000</u></u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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 \$705,384 and \$1,306,126 during fiscal year 2021 and 2020 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 \$1,565,334 and \$2,261,675 is reported in the statements of net position for the unspent portion of these amounts at December 31, 2021 and 2020, respectively.

Deferred revenue consisted of the following at December 31:

	2021	2020
Unspent Bank of America Settlement funds	\$ 1,565,334	\$ 2,261,675
Unearned grants and contracts revenue	55,606	131,852
Total deferred revenue	<u>\$ 1,620,940</u>	<u>\$ 2,393,527</u>

Note 10 – Net Assets with Donor Restrictions

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

	2021	2020
Purpose restrictions		
Memorial fund-		
Jonathan Schubert	\$ 165,023	\$ 173,378
John J. Ross	76,361	74,890
John Sticht	12,371	11,948
Frank Fanning	3,438	3,545
Kathleen Masters	633	611
Georgia Ellexson	915	884
Total memorial fund	<u>258,741</u>	<u>265,256</u>
Total purpose restrictions	<u>258,741</u>	<u>265,256</u>
Time restrictions		
Pledges receivable for unrestricted purposes	<u>63,544</u>	<u>73,982</u>
Total time restrictions	<u>63,544</u>	<u>73,982</u>
Total net assets with donor restrictions	<u>\$ 322,285</u>	<u>\$ 339,238</u>

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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

	2021	2020
Purpose restrictions met	\$ 15,500	\$ 2,431
Time restrictions met	18,940	20,159
	<u>\$ 34,440</u>	<u>\$ 22,590</u>

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, 2021 and 2020, were as follows:

	2021	2020
Administrative	\$ 6,506	\$ -
Legal services		
Legal services and assistance	26,550	38,408
Technology	28,818	20,220
Outreach-hotline	10,919	44,974
Law related education		
Law related education	14,023	16,604
Mock trial	21,334	23,145
Project citizen	19,262	504
Kids voting AZ	1,032	-
I-Civic	-	513
We the people	15,953	27,950
Total donated services	<u>\$ 144,397</u>	<u>\$ 172,318</u>

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 did not make any contributions to the plan during the year ended December 31, 2021 or 2020.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2021 and 2020

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 \$102,481 and \$101,598 for the years ended December 31, 2021 and 2020, respectively.

The future minimum payments required under the operating lease at December 31, 2021, were as follows:

Years ending December 31,	
2022	\$ 94,278
2023	96,346
2024	96,759
2025	96,759
2026	96,759
Thereafter	120,949
Total minimum lease payments	<u>\$ 601,850</u>

Single Audit Section

Auditor's Section

**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, 2021, 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 August 17, 2022.

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 & Brown CPAs, PLLC

Tempe, Arizona

August 17, 2022

**Independent Auditors' Report on Compliance for Each Major Federal Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Program

Opinion on 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, 2021. 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.

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, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Arizona Foundation for Legal Services and Education. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Arizona Foundation for Legal Services and Education's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Arizona Foundation for Legal Services and Education's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Arizona Foundation for Legal Services and Education's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Arizona Foundation for Legal Services and Education's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Arizona Foundation for Legal Services and Education, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Arizona Foundation for Legal Services and Education, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Arizona Foundation for Legal Services and Education, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 & Brown CPAs, PLLC

Tempe, Arizona

August 17, 2022

**Arizona Foundation for Legal Services and Education
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021**

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
93.558

Name of Federal Program or Cluster
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
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**Arizona Foundation for Legal Services and Education
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021**

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Auditee's Section

Arizona Foundation for Legal Services and Education
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2021

Federal Grantor/ Pass Through Grantor/Program Title	Assistance Listing Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Justice			
Crime Victim Assistance/Discretionary Grants	16.582	2018-V3-GX-K010	\$ 5,950
Total U.S. Department of Justice			<u>5,950</u>
U.S. Department of Education			
Passed through the Center for Civic Education - Project Citizen Research Program			
Grant Program	84.367D	R305A190360	<u>18,956</u>
Total U.S. Department of Education			<u>18,956</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	977,112
Total U.S. Department of Health and Human Services			<u>977,112</u>
Total expenditures of federal awards			<u><u>\$ 1,002,018</u></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, 2021

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 - Assistance Listing Number

The program titles and assistance listing numbers were obtained from the federal or pass-through grantor or the 2021 assistance listing.

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. Total funds passed through for 2021 were as follows:

Program Title	Assistance Listing Number	Provided to Subrecipients
Temporary Assistance for Needy Families	93.558	\$ 944,451

Note 6 - Indirect Costs

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