

**Arizona Foundation for Legal Services
and Education**

Single Audit Reporting Package

December 31, 2008

Arizona Foundation for Legal Services and Education
Single Audit Reporting Package
December 31, 2008

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Independent Auditor's Report

The Board of Directors of
Arizona Foundation for Legal Services and Education
Phoenix, Arizona

We have audited the accompanying statement of financial position of Arizona Foundation for Legal Services and Education as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Arizona Foundation for Legal Services and Education. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Arizona Foundation for Legal Services and Education's 2007 financial statements and, in our report dated June 12, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2009 on our consideration of Arizona Foundation for Legal Services and Education's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Arizona Foundation for Legal Services and Education taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 13, 2009

Arizona Foundation for Legal Services and Education
Statement of Financial Position
December 31, 2008
(with comparative totals for December 31, 2007)

| | 2008 | 2007 |
|---|--------------|--------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 82,826 | \$ 136,728 |
| Accounts receivable | 230,243 | 349,874 |
| IOLTA receivable | 358,154 | 269,369 |
| Notes receivable | 122,747 | 301,180 |
| Prepaid expenses | 18,544 | 19,696 |
| Interest receivable | - | 6,668 |
| Total current assets | 812,514 | 1,083,515 |
| Property and equipment | 332,432 | 207,603 |
| Less accumulated depreciation | (112,315) | (72,330) |
| Property and equipment, net | 220,117 | 135,273 |
| Cash and investments held for board-designated endowment, restricted and investment purposes | 1,072,778 | 3,006,839 |
| Notes receivable, noncurrent | 395,493 | 242,060 |
| Total Assets | \$ 2,500,902 | \$ 4,467,687 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,586 | \$ 44,525 |
| Accrued liabilities | 250,199 | 456,614 |
| Advances from affiliate | 27,295 | 392 |
| Deferred revenue - grants | 362,981 | 174,807 |
| Total liabilities | 645,061 | 676,338 |
| Net assets: | | |
| Unrestricted | 1,745,226 | 3,686,660 |
| Temporarily restricted | 110,615 | 104,689 |
| Total net assets | 1,855,841 | 3,791,349 |
| Total liabilities and net assets | \$ 2,500,902 | \$ 4,467,687 |

See accompanying notes to financial statements.

Arizona Foundation for Legal Services and Education
Statement of Activities
For the Year Ended December 31, 2008
(with comparative totals for the year ended December 31, 2007)

| | Unrestricted | Temporarily Restricted | Totals | |
|---------------------------------------|------------------|---------------------------|------------------|------------------|
| | | | 2008 | 2007 |
| Revenues, support and gains: | | | | |
| IOLTA | \$ 2,653,079 | \$ - | \$ 2,653,079 | \$ 2,877,392 |
| Federal and state grants | 1,996,225 | - | 1,996,225 | 2,332,949 |
| Contributions | 665,241 | 7,000 | 672,241 | 311,356 |
| SBA dues for pro bono | 62,000 | - | 62,000 | 60,447 |
| SBA legal services contributions | 160,276 | - | 160,276 | 158,068 |
| Program and fees | 71,514 | - | 71,514 | 77,631 |
| Interest | 56,662 | 2,335 | 58,997 | 130,298 |
| Net gain on investments | - | - | - | 129,787 |
| Other | 650 | - | 650 | 1,290 |
| Net assets released from restrictions | 3,409 | (3,409) | - | - |
| Total revenues and gains | 5,669,056 | 5,926 | 5,674,982 | 6,079,218 |
| Expenses and losses: | | | | |
| Program services: | | | | |
| Legal services | 4,397,689 | - | 4,397,689 | 3,785,094 |
| Law related education | 1,648,015 | - | 1,648,015 | 1,503,469 |
| Support services: | | | | |
| Management and general | 706,827 | - | 706,827 | 342,880 |
| Fund-raising | 159,902 | - | 159,902 | 141,232 |
| Total expenses | 6,912,433 | - | 6,912,433 | 5,772,675 |
| Net loss on investments | 698,057 | - | 698,057 | - |
| Loss on disposition of equipment | - | - | - | 2,329 |
| Total expenses and losses | 7,610,490 | - | 7,610,490 | 5,775,004 |
| Change in net assets | (1,941,434) | 5,926 | (1,935,508) | 304,214 |
| Net assets, beginning of year | 3,686,660 | 104,689 | 3,791,349 | 3,487,135 |
| Net assets, end of year | \$ 1,745,226 | \$ 110,615 | \$ 1,855,841 | \$ 3,791,349 |

See accompanying notes to financial statements.

Arizona Foundation for Legal Services and Education
Statement of Cash Flows
For the Year Ended December 31, 2008
(With comparative totals for the year ended December 31, 2007)

| | 2008 | 2007 |
|--|----------------|-------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (1,935,508) | \$ 304,214 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 60,541 | 15,507 |
| Loss on disposition of equipment | - | 2,329 |
| Net (gains) losses on investments | 698,057 | (129,787) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| IOLTA receivable | (88,785) | 22,521 |
| Accounts receivable | 119,631 | 38,781 |
| Prepaid expenses | 1,152 | (2,618) |
| Interest receivable | 6,668 | 5,147 |
| Increase (decrease) in: | | |
| Accounts payable | (39,939) | 831 |
| Accrued liabilities | (206,415) | 85,642 |
| Advances from affiliated organization | 26,903 | (9,994) |
| Deferred revenue | 188,174 | (63,712) |
| Net cash provided (used) by operating activities | (1,169,521) | 268,861 |
| Cash flows from investing activities: | | |
| Net decrease (increase) in cash held for board-designated endowment purposes | 133,543 | (125,293) |
| Proceeds from sale of investments | 2,157,505 | 4,193,465 |
| Principal payments received on loans receivable | 25,000 | - |
| Purchases of investments | (1,055,044) | (4,242,474) |
| Loans made | - | (543,240) |
| Purchases of equipment | (145,385) | (107,722) |
| Net cash provided (used) by investing activities | 1,115,619 | (825,264) |
| Net decrease in cash and cash equivalents | (53,902) | (556,403) |
| Cash and cash equivalents, beginning of year | 136,728 | 693,131 |
| Cash and cash equivalents, end of year | \$ 82,826 | \$ 136,728 |

See accompanying notes to financial statements.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

Note 1 - Nature of the Organization

The Arizona Foundation for Legal Services and Education 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.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Foundation conform to U.S. generally accepted accounting principles as applicable to nonprofit organizations. The more significant accounting policies of the Foundation are described below.

Financial Statement Presentation – The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for Profit Organizations*.

Basis of Accounting – The financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred.

Investments - The Foundation accounts for its investments under standards established by the FASB in SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Foundation reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices.

Contributions – The Foundation has also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Donated Services – Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, 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.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

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 Equivalents – 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, with the exception of investments held for board-designated endowment purposes.

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 generally as shown.

| | |
|-------------------------|--------------|
| Furniture and equipment | 4 to 7 years |
| Computer hardware | 3 to 5 years |
| Computer software | 4 to 5 years |

The Foundation has a capitalization policy of \$250 for property and equipment.

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

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) of \$250,000 are exposed to loss in the event of nonperformance by the financial institutions. The Foundation maintains cash balances at several financial institutions. At December 31, 2008, the Foundation's uninsured cash balances total \$115,604. The Foundation does not anticipate nonperformance by the financial institutions.

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

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

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>2008</u> | <u>2007</u> |
|--------------|------------------|-------------------|
| Cash on hand | \$ 100 | \$ 100 |
| Cash in bank | 82,726 | 136,628 |
| | <u>\$ 82,826</u> | <u>\$ 136,728</u> |

Note 5 - Cash and Investments Held for Board-Designated Endowment, Restricted and Investment Purposes

The Board has earmarked unrestricted cash and investments to be invested to provide income for a long but unspecified period. The Foundation holds temporarily restricted net assets in a memorial fund set up to honor late Bar members. At year-end, the cash and investments held for these purposes consisted of the following.

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|---------------------|---------------------|
| General Operating Reserve: | | |
| Cash and money market fund | \$ - | \$ 438,410 |
| Certificates of deposit | - | 660,000 |
| Endowment Fund: | | |
| Cash and money market fund | 316,866 | 11,998 |
| Certificates of deposit | - | 323,880 |
| Equity and bond mutual funds | 541,615 | 1,006,893 |
| IOLTA Reserve: | | |
| Equity and bond mutual funds | 138,785 | 460,969 |
| Temporarily Restricted Memorial Fund: | | |
| Equity and bond mutual funds | <u>75,512</u> | <u>104,689</u> |
| Long-term portion | <u>\$ 1,072,778</u> | <u>\$ 3,006,839</u> |

Note 6 - Notes Receivable

During 2007, the Foundation made loans to various not for profit organizations with similar missions and goals as the Foundation. The loans bear interest equivalent to the applicable federal short-term rate for the semi-annual compound period at December 2008 of 1.36% plus 1%. The loans have varying maturities and repayment terms at December 31, 2008 as follows:

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

| | 2008 | 2007 |
|--|-------------|-------------|
| Notes receivable from DNA – Native American Protection & Advocacy, Inc., in the principal amounts of \$200,000 and \$168,240 which requires the borrower to repay the principal balance in twelve equal monthly installments starting September 1, 2009. The date of maturity for the notes is August 1, 2010 at which time the remaining balance of principal and interest is due in its entirety. (The terms of the notes were revised in 2008 from a start date of April 1, 2008 and a maturity date of April 1 2009.) The notes are secured by an authorized board resolution. | \$ 368,240 | \$ 368,240 |
| Note receivable from Community Legal Services which requires the borrower to repay the principal balance in twelve equal monthly installments starting April 1, 2010. The date of maturity for the note is April 1, 2011 at which time the remaining balance of principal and interest is due in its entirety. The note is secured by an authorized board resolution. | 150,000 | 150,000 |
| Note receivable from Never Again Foundation. An interest rate of 4.84% per annum which compounded semi-annually. The date of maturity for the note was September 1, 2008, at which time the principal and interest was due in its entirety. The note is secured by an authorized board resolution. | - | 25,000 |
| Total notes receivable | 518,240 | 543,240 |
| Less: current portion | (122,747) | (301,180) |
| Notes receivable, non- current portion | \$ 395,493 | \$ 242,060 |

Note 7 - Property and Equipment

| | 2008 | 2007 |
|-------------------------------------|-------------|-------------|
| Property and equipment consists of: | | |
| Cost or donated value: | | |
| Leasehold improvements | \$ 19,576 | \$ 8,558 |
| Furniture and equipment | 85,408 | 95,482 |
| Computer hardware | 170,006 | 74,920 |
| Computer software | 57,442 | 28,643 |
| Total cost | 332,432 | 207,603 |
| Accumulated depreciation | (112,315) | (72,330) |
| Property and equipment, net | \$ 220,117 | \$ 135,273 |

Depreciation expense charged to operations was \$60,541 for 2008 and \$15,507 for 2007.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of a memorial fund set up to honor late bar members.

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| John J. Ross | \$ 49,818 | \$ 51,107 |
| John Sticht | 7,112 | 6,962 |
| Georgia Ellexson | 2,895 | 2,834 |
| Jonathan Schubert | 50,790 | 43,786 |
| Total temporarily restricted net assets | <u>\$ 110,615</u> | <u>\$ 104,689</u> |

Note 9 - Donated Services

The value of donated services included as contributions in the financial statements and the corresponding program expenses for the years ended December 31, 2008 and 2007 were as follows:

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|-------------------|-------------------|
| Legal services: | | |
| Legal Assistance Development | \$ 22,527 | \$ 4,000 |
| Law related education: | | |
| Law Related Education | 14,480 | 4,750 |
| Law for Kids | 12,875 | 2,625 |
| Law Related Education – Conference | | 1,280 |
| Mock Trial | 35,159 | 41,444 |
| Project Citizen | 69,408 | 50,900 |
| We the People | 88,871 | 83,217 |
| Community Works | - | 29,956 |
| CSI Arizona | 7,687 | 6,947 |
| Management and general: | | |
| Administration | 277,245 | 450 |
| Total | <u>\$ 528,252</u> | <u>\$ 225,569</u> |

Note 10 - 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 expended on 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 therefore.

Arizona Foundation for Legal Services and Education
Notes to the Financial Statements
December 31, 2008
(with comparative information for the year ended December 31, 2007)

Note 11 - 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 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 matches employee contributions to the plan in the amount of 10% to a limit of 6% of the employee's gross wages per calendar year.

Total employer pension and 401(k) contributions for 2008 and 2007 were approximately \$66,500 and \$49,500, respectively.

Note 12 - Related Party Transactions

Historically, the State Bar of Arizona has performed certain management functions for the Foundation for a fee. The Foundation discontinued the management service agreement during FY 2008, therefore reducing the management fees drastically. The total agreed upon management fees reimbursed by the Foundation was approximately \$20,960 for 2008 and \$146,240 for 2007.

The Foundation currently leases 8,459 square feet of office space from the State Bar of Arizona under a 10 year operating lease agreement, which went into effect April 2005 and was amended September 1, 2007. The Foundation has an option to cancel the lease agreement anytime after March 31, 2010. Rental payments under the terms of the operating lease were approximately \$182,200 and \$95,900 for the years ended December 31, 2008 and December 31, 2007, respectively. The future minimum payments required under the operating lease at December 31, 2008, were as follows:

| | |
|------------------------------|---------------------|
| Year ending December 31 | |
| 2009 | \$ 186,285 |
| 2010 | 195,406 |
| 2011 | 200,131 |
| 2012 | 202,377 |
| 2013 | 204,623 |
| 2014-15 | 258,726 |
| Total minimum lease payments | <u>\$ 1,247,548</u> |

Supplementary Information

Arizona Foundation for Legal Services and Education
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2008

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|---|----------------|---|---------------------|
| U.S. Department of Education | | | |
| Passed through Center for Civic Education Fund for the Improvement of Civic Education We the People | 84.929A | CC 06-07 5801 AZ CC 07-08 5801 AZ Q929A030001 | \$ 49,424 |
| Project Citizen | 84.929A | CC 06-07 5803 PCW CC 06-07 5804 AZ CC 07-08 5804 AZ | 55,800 |
| Civic Education - Cooperative Education Exchange Program Representative Democracy | 84.304K | Q304K080001RDA8-9 | 1,287 |
| Total U.S. Department of Education | | | <u>106,511</u> |
| U.S. Department of Health and Human Services | | | |
| Passed through the Arizona Department of Economic Security Temporary Assistance for Needy Families | 93.558 | DES-070502-001 | <u>1,186,610</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,293,121</u> |

See accompanying notes to schedule.

Arizona Foundation for Legal Services and Education
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2008

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 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 2008 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the federal contract number was used.

Note 3 - Subrecipients

Of the federal expenditures presented in the schedule, the Foundation provided federal awards to subrecipients as follows:

| Program Title | CFDA Number | Amount Provided To Subrecipients |
|---|----------------|-------------------------------------|
| Temporary Assistance for Needy Families | 93.558 | \$ 1,125,984 |

**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**

The Board of Directors of
Arizona Foundation for Legal Services and Education
Phoenix, Arizona

We have audited the financial statements of Arizona Foundation for Legal Services and Education as of and for the year ended December 31, 2008, and have issued our report thereon dated April 13, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

Miller, Allen & Co., P.C.

April 13, 2009

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Board of Directors of
Arizona Foundation for Legal Services and Education
Phoenix, Arizona

Compliance

We have audited the compliance of Arizona Foundation for Legal Services and Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Arizona Foundation for Legal Services and Education's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Arizona Foundation for Legal Services and Education's management. Our responsibility is to express an opinion on Arizona Foundation for Legal Services and Education's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Arizona Foundation for Legal Services and Education'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. Our audit does not provide a legal determination on Arizona Foundation for Legal Services and Education's compliance with those requirements.

In our opinion, Arizona Foundation for Legal Services and Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended December 31, 2008.

Internal Control over Compliance

Arizona Foundation for Legal Services and Education's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and

performing our audit, we considered Arizona Foundation for Legal Services and Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Arizona Foundation for Legal Services and Education's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller, Allen & Co., P. C.

April 13, 2009

Arizona Foundation for Legal Services and Education
 Schedule of Findings and Questioned Costs
 Year Ended December 31, 2008

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

YES NO

Material weaknesses identified in internal control over financing reporting? X

Significant deficiencies identified, not considered to be material weaknesses? X (None Reported)

Noncompliance material to the financial statements noted? X

Federal Awards

Material weaknesses identified in internal control over major programs? X

Significant deficiencies identified, not considered to be material weaknesses? X (None Reported)

Types of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])? X

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

93.558

Temporary Assistance for Needy Families

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? X

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])? X