Arizona Foundation for Legal Services and Education

Single Audit Reporting Package

December 31, 2017

Snyder & Butler, CPAs, PLLC

Arizona Foundation for Legal Services and Education
December 31, 2017 and 2016
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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of Arizona Foundation for Legal Services and Education, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Report on Summarized Comparative Information
We have previously audited the Arizona Foundation for Legal Services and Education's financial statements as of and for the year ended December 31, 2016, and we expressed an unmodified opinion on those financial statements in our report dated August 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 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 19, 2018, on our consideration of the Arizona Foundation for Legal Services and Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arizona Foundation for Legal Services and Education's internal control over financial reporting and compliance.

Snyder + Butler, CPAs PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
August 19, 2018

Financial Statements

Arizona Foundation for Legal Services and Education
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 49,087	$ 28,328
Accounts receivable, net	437,266	355,969
Pledges receivable, net	33,116	34,285
IOLTA receivable	48,000	46,000
Notes receivable	-	49,620
Prepaid expenses	32,852	9,729
Total current assets	600,321	523,931
Property and equipment	354,513	357,158
Less accumulated depreciation	(293,619)	(312,371)
Property and equipment, net	60,894	44,787
Cash and investments held for board-designated endowment, restricted, and investment purposes		
Cash and cash equivalents	3,238,260	507,691
Investments	3,468,465	7,675,840
Pledges receivable, net of discount	46,372	72,335
Total assets	7,414,312	8,824,584
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	25,294	53,467
Accrued liabilities	253,867	251,390
Deferred revenues	6,628,013	8,140,740
Total liabilities	6,907,174	8,445,597
Net Assets:		
Unrestricted	222,557	99,202
Temporarily restricted	284,581	279,785
Total net assets	507,138	378,987
Total liabilities and net assets	$ 7,414,312	$ 8,824,584

Arizona Foundation for Legal Services and Education
Statements of Activities
For the Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Totals 2017	Totals 2016
Revenues, support, and gains:				
IOLTA	$ 563,918	$ -	$ 563,918	$ 506,986
Federal and state grants	3,433,056	-	3,433,056	3,178,963
Contributions	525,355	3,133	528,488	672,274
SBA legal services contributions	125,000	-	125,000	125,000
Mock Trial registration and fees	31,560	-	31,560	29,710
SBA dues for pro bono	99,929	-	99,929	109,856
Pro Hac Vice	80,000	-	80,000	80,000
Program and fees	72,329	-	72,329	118,959
Working poor tax credit	10,844	-	10,844	21,225
Interest	144	15,957	16,101	6,519
Net gain (loss) on investments	1,256	14,386	15,642	10,981
Other income	2,825	-	2,825	-
Net assets released from restrictions	28,680	(28,680)	-	-
Total revenues, support, and gains	4,974,896	4,796	4,979,692	4,860,473
Expenses and losses:				
Program services:				
Legal services	3,696,362	-	3,696,362	3,604,129
Law related education	918,219	-	918,219	1,011,403
Support services:				
Management and general	157,555	-	157,555	204,433
Fundraising	79,405	-	79,405	57,888
Total expenses	4,851,541	-	4,851,541	4,877,853
Change in net assets	123,355	4,796	128,151	(17,380)
Net assets, beginning of year	99,202	279,785	378,987	396,367
Net assets, end of year	$ 222,557	$ 284,581	$ 507,138	$ 378,987

See accompanying notes to the financial statements.

Arizona Foundation for Legal Services and Education
Statements of Cash Flows
For the Year Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 128,151	$ (17,380)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	24,337	17,789
Bad debt expense	-	50,000
Services received in lieu of payments on notes receivable	49,620	-
(Gain) Loss on disposition of equipment	184	-
Net unrealized losses (gains) on investments	(15,642)	(10,981)
Changes in operating assets and liabilities		
IOLTA receivable	(2,000)	(2,000)
Accounts receivable	(81,297)	(20,398)
Pledges receivable	27,132	(19,001)
Prepaid expenses	(23,123)	15,468
Accounts payable	(28,173)	17,527
Accrued expenses	2,477	36,656
Deferred revenue	(1,512,727)	7,509,034
Net cash provided (used) by operating activities	(1,431,061)	7,576,714
Cash flows from investing activities:		
Purchases of investments	-	(7,556,967)
Sale of investments	4,223,017	-
Purchases of equipment	(40,628)	(17,172)
Net cash provided (used) by investing activities	4,182,389	(7,574,139)
Net increase (decrease) in cash and cash equivalents	2,751,328	2,575
Cash and cash equivalents, beginning of year	536,019	533,444
Cash and cash equivalents, end of year	$ 3,287,347	$ 536,019

Supplemental Disclosure of Noncash Activities

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

During fiscal year 2016, the Foundation estimated that a portion of its note receivable would be uncollectible. $50,000 was recorded against bad debt expense during the year, causing the change in net assets to be a decrease of $17,380 rather than an increase of $32,620.

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 accompanying financial statements are presented in accordance with FASB ASC 958- 205, *Presentation of Financial Statements*. Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation has no permanently restricted net assets.

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, 2016, from which the summarized information was derived. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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

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

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

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

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

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

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

Contributions – In accordance with FASB ASC 958-605, *Revenue Recognition,* contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Materials and Services – Donated services are recognized as contributions in accordance with FASB ASC 958-605, *Revenue Recognition* if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteers also donated significant amounts of their time in the Foundation's program services.

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

Subsequent Events – Subsequent events were evaluated by management through August 19, 2018, the date on which the financial statements were available to be issued.

Note 2 – Concentrations of Credit Risk

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

Cash deposits with banks in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) are exposed to loss in the event of nonperformance by the financial institutions. At December 31, 2017, the Foundation had cash on hand of $100 and the carrying amount of the Foundation's deposits was $1,719,098 with a bank balance of $1,740,056. Of the bank balance $606,215 was insured by FDIC/SIPC and $1,313,896 was uninsured and uncollateralized. The Foundation generally keeps funds in fully insured investment accounts. However, due to a banking error the funds were temporarily placed in an uninsured cash account at year-end. At December 31, 2016, the Foundation had cash on hand of $100 and the carrying amount of the Foundation's deposits was $530,232 with a bank balance of $788,030. Of the bank balance $751,907 was insured by FDIC/SIPC and $36,123 was uninsured and uncollateralized. At December 31, 2017, the Foundation held negotiable certificates of deposit totaling $3,249,552. These amounts are divided among various banks in increments less than the $250,000 maximum FDIC amount. Therefore, these certificates of deposit are fully insured at year end.

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

Note 3 – Cash and Cash Equivalents

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

	2017	2016
Operating cash and cash equivalents		
Cash on hand	$ 100	$ 100
Cash in bank	48,987	28,228
Total operating cash and cash equivalents	49,087	28,328
Cash and cash equivalents held for investment purposes		
Cash in bank	1,670,111	502,004
Money market mutual fund	1,568,149	5,687
Total cash and cash equivalents held for investments	3,238,260	507,691
Total cash and cash equivalents	$ 3,287,347	$ 536,019

Note 4 – Pledges Receivable

Pledges receivable at December 31, 2017 and 2016 represent unconditional promises to give as follows:

	2017	2016
Receivable in less than one year	$ 33,116	$ 34,285
Receivable in one to five years	47,591	73,847
Total pledges receivable, gross	80,707	108,132
Less discount for long-term pledges	(1,219)	(1,512)
Pledges receivable, net	79,488	106,620
Current	33,116	34,285
Long-term	46,372	72,335
Total pledges receivable	$ 79,488	$ 106,620

Long-term pledges are discounted to present value using discount rates provided by the IRS annually, and are between 1.2% and 4.0%. The discounts will be recognized as contribution revenue over future years.

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 State Bar of Arizona members.

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

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

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2017 and 2016.

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, 2017 and 2016 are as follows:

	Hierarchy Level	2017	2016
Endowment/Investment Fund			
Cash in bank		$ 1,670,111	$ 502,004
Money market mutual funds	Level 1	1,568,149	5,687
Total cash and cash equivalents		3,238,260	507,691
Negotiable certificates of deposit	Level 2	3,249,552	7,488,602
Equity mutual funds	Level 1	13,820	14,073
Total board designated and investment fund		6,501,632	8,010,366
Temporarily restricted memorial fund			
Cash in bank			
Corporate equities	Level 1	4,712	3,380
Equity mutual funds	Level 1	200,381	169,785
Total temporarily restricted memorial fund		205,093	173,165
Total cash and investments held for investment purposes		$ 6,706,725	$ 8,183,531

Note 6 – Notes Receivable

During 2007, the Foundation made loans to various not-for-profit organizations to provide seed money for their respective capital campaigns allowing for legal aid services to continue to be provided in those geographical areas. Two loans from one entity remained outstanding as of December 31, 2016, but were fully paid or forgiven as of December 31, 2017. The balance of the notes receivable at December 31 were as follows:

	2017	2016
Notes receivable from Native American Protection and Advocacy, Inc. ("DNA")		
Amount of note	$ -	$ 116,250
Less discount	-	(16,630)
Less allowance for uncollectible accounts	-	(50,000)
Amount of note, net of discount	-	49,620
Less current portion	-	(49,620)
Notes receivable, noncurrent portion	$ -	$ -

The notes receivable from DNA had original principal amounts of $200,000 and $168,240, totaling $368,240. During 2008, repayment terms of the notes receivable from DNA required the borrower to repay the balance in twelve monthly installments, beginning September 1, 2009. Under those terms, the note matured August 1, 2010, at which time the remaining principal and interest would be due in its entirety. During the fiscal year ended December 31, 2009, no cash payments had been made on these notes. In response, DNA and the Foundation entered into an agreement to allow DNA to repay the note in the form of a reduction of payments historically made to DNA by the Foundation for legal services work performed by DNA.

During 2013, the Foundation board and staff met with DNA's Executive Director to reexamine the terms and conditions for the balance of the loan going forward. New repayment terms were defined and approved by the Foundation's Legal Service Committee and the Foundation's Finance Committee which extended the duration for repayment and effectively reduced the present value of the note at December 31, 2013. Consistent with prior agreements, management of the Foundation determined that interest on the note will no longer be due from DNA. As such, the note receivable balance has been discounted to present value using the estimated prevailing interest rate for similar loans of 4%. During fiscal year 2016, the Foundation estimated that $50,000 would be uncollectible and recorded bad debt expense. The remaining balance was paid in 2017.

Note 7 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2017	2016
Cost or donated value		
Leasehold improvements	$ 19,576	$ 19,576
Furniture and equipment	83,057	107,748
Computer hardware	173,818	160,042
Computer software	78,062	69,792
Total cost or donated value	354,513	357,158
Accumulated depreciation	(293,619)	(312,371)
Property and equipment, net	$ 60,894	$ 44,787

Note 8 – Deferred Revenue

As a result of a Justice Department Settlement with Bank of America executed in 2014, the Foundation received $8,738,233 in 2016. The funds received from the settlement are required to be used in providing funds to legal aid organizations in the state of Arizona for foreclosure prevention legal assistance and community redevelopment legal assistance. The Foundation awarded grants of $1,517,336 and $1,170,950 during fiscal year 2017 and 2016 respectively, which meet the requirements of the award, at which time the respective revenue was recognized and included in contract revenue in the statement of activities. Management has evaluated this involuntary settlement and determined that the Foundation is carrying out specific requirements on behalf of Bank of America and has therefore concluded that this revenue should be recognized in a manner similar to an exchange transaction. As a result, deferred revenue of $6,543,688 and $8,061,024 is reported in the statements of net position for the unspent portion of these amounts at December 31, 2017 and 2016, respectively.

Deferred revenue consisted of the following at December 31:

	2017	2016
Unspent Bank of America Settlement funds	$ 6,543,688	$ 8,061,024
Unearned grants and contracts revenue	84,325	79,716
Total deferred revenue	$ 6,628,013	$ 8,140,740

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

	2017	2016
Purpose restrictions		
Memorial fund-		
Jonathan Schubert	$ 130,195	$ 109,418
John J. Ross	63,138	54,047
John Sticht	9,779	8,316
Frank Fanning	982	735
Kathleen Masters	449	382
Georgia Ellexson	550	267
Total memorial fund	205,093	173,165
Total purpose restrictions	205,093	173,165
Time restrictions		
Pledges receivable for unrestricted purposes	79,488	106,620
Total time restrictions	79,488	106,620
Total temporarily restricted net assets	$ 284,581	$ 279,785

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

	2017	2016
Purpose restrictions met	$ 505	$ 4,426
Time restrictions met	28,175	33,296
	$ 28,680	$ 37,722

Note 10 – Donated Services

The value of donated services included as contributions in the financial statements and the corresponding program expenses for years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Legal services		
Legal services and assistance	$ 254,645	$ 269,425
Tech department	-	6,000
Websites	83,730	130,776
Law related education		
We the people	48,512	56,340
Mock trial	44,321	49,281
Project citizen	362	15,392
Law related education	5,134	2,143
Management and general		
Administration	-	455
Total donated services	$ 436,704	$ 529,812

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

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

Note 12 – Retirement Plan

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

The Foundation, at its sole discretion, contributes on behalf of each eligible participant in the plan an amount equal to 7.0% of the participant's compensation to the federal social security wage limit. After the wage limit is met, the Foundation contributes an additional 5.7% of each eligible participant's compensation in excess of the wage limit. The Foundation contributed $36,357 for the plan year ended December 31, 2017. The Foundation did not make any contributions to the plan during the years ended December 31, 2016.

Note 13 - Related Party Transactions

The Foundation currently leases 8,027 square feet of office space from the State Bar of Arizona under a 10 year operating lease agreement, which went into effect June 1, 2011. During fiscal year 2017 the Foundation entered into a new lease agreement which replaced the old agreement and reduced the office space to 4,962 square feet. The new lease did not go into effect until March 1, 2018. Rental payments under the terms of the operating lease were $133,943 and $133,649 for the years ended December 31, 2017 and 2016, respectively.

The future minimum payments required under the operating lease at December 31, 2017, were as follows:

Years ending December 31,	
2018	101,090
2019	94,278
2020	94,278
2021	94,278
2022	94,278
Thereafter	499,508
Total minimum lease payments	$ 977,710

Single Audit Section

Arizona Foundation for Legal Services and Education
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Grantor/ Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Passed through the Center for Civic Education - Supporting Effective Educator Development Grant Program	84.367D	U367D150010	$ 72,571
Total U.S. Department of Education			72,571
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Economic Security -			
Temporary Assistance for Needy Families	93.558	DES13-049391	995,500
Total U.S. Department of Health and Human Services			995,500
Total expenditures of federal awards			$ 1,068,071

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, 2017

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Arizona Foundation for Legal Services and Education ("Foundation") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2017 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used.

Note 3 – Temporary Assistance for Needy Families block grant

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

Note 4 - Reporting of Commingled Financial Assistance

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

Note 5 – Subrecipients

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

Program Title	CFDA Number	Provided to Subrecipients
Temporary Assistance for Needy Families	93.558	$ 966,714

Note 5 – Indirect Costs

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

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Arizona Foundation for Legal Services and Education ("Foundation"), which comprise the statement of financial position as of December 31, 2017, 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 19, 2018

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Snyder + Butler, CPAs, PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
August 19, 2018

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

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

Report on Compliance for Each Major Federal Program
We have audited the Arizona Foundation for Legal Services and Education's ("Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2017. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major Federal Program
In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Snyder + Butler, CPAs, PLLC

Snyder & Butler, CPAs, PLLC
Tempe, Arizona
August 19, 2018

Arizona Foundation for Legal Services and Education
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

Other Matters

Auditee's summary schedule of prior audit findings	No