



Certified Public Accountants, LLP

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

**FINANCIAL STATEMENTS
and
SUPPLEMENTAL SCHEDULES**

DECEMBER 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Neighborhood Legal Services
of Los Angeles County

Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood Legal Services of Los Angeles County (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2017 and 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 auditors' 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 entity'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 entity'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 Neighborhood Legal Services of Los Angeles County as of December 31, 2017 and 2016, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matter

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Revenue, Support, Expenses, and Changes in Net Assets for Legal Services Corporation (LSC) Funds, and Schedule of Revenue, Support, and Expenses by Grant, are presented for purposes of additional analysis as required by LSC *Audit Guide for Recipients*, and are 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 May 7, 2018, on our consideration of Neighborhood Legal Services of Los Angeles County'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 solely 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 the effectiveness of Neighborhood Legal Services of Los Angeles County's 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 Neighborhood Legal Services of Los Angeles County's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California

May 7, 2018

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	\$ 942,934	\$ 559,923
Grants receivable	2,085,384	2,386,413
Pledges receivable, net (Note 3)	50,237	86,295
Prepaid expenses and deposits	66,470	61,172
Investments (Note 4)	4,010,293	3,992,646
Property and equipment (Note 5)	2,219,402	2,389,430
TOTAL ASSETS	\$ 9,374,720	\$ 9,475,879
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,032,604	\$ 1,033,520
Accrued liabilities (Note 6)	452,294	442,929
Accrued unemployment liability (Note 7)	140,723	113,758
Deferred revenue	931,281	1,328,476
Line of credit (Note 8)	-	-
Notes payable (Note 8)	53,623	69,359
TOTAL LIABILITIES	2,610,525	2,988,042
NET ASSETS		
Unrestricted	5,633,362	5,619,393
Temporarily restricted (Note 11)	1,130,833	868,444
TOTAL NET ASSETS	6,764,195	6,487,837
TOTAL LIABILITIES AND NET ASSETS	\$ 9,374,720	\$ 9,475,879

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2017 and 2016

	December 31, 2017			December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Government contracts (Note 13)	\$ 8,545,062	\$ 4,438,331	\$ 12,983,393	\$ 8,105,291	\$ 4,386,159	\$ 12,491,450
Donated services (Note 2)	3,756,313		3,756,313	4,479,313		4,479,313
Foundations	1,690,853	113,833	1,804,686	1,384,549	41,642	1,426,191
Contributions	161,579	9,000	170,579	582,131	45,625	627,756
Special event	104,811		104,811	175,204		175,204
Insurance reimbursement	5,111		5,111	71,075		71,075
Fellowship income	70,587		70,587	62,025		62,025
Rental income	59,975		59,975	58,512		58,512
Income from investments	28,537		28,537	17,340		17,340
Legal services exchanged for reduction of debt	15,736		15,736	15,036		15,036
Attorney fees and costs	23,643		23,643	15,000		15,000
Other revenue			-	1,849		1,849
Net assets released from program restrictions (Note 11)	4,298,775	(4,298,775)	-	4,509,993	(4,509,993)	-
TOTAL REVENUE AND SUPPORT	<u>18,760,982</u>	<u>262,389</u>	<u>19,023,371</u>	<u>19,477,318</u>	<u>(36,567)</u>	<u>19,440,751</u>
EXPENSES						
Program services	16,473,486		16,473,486	16,553,238		16,553,238
Management and general	2,071,289		2,071,289	2,059,461		2,059,461
Fundraising	202,238		202,238	189,908		189,908
TOTAL EXPENSES	<u>18,747,013</u>	<u>-</u>	<u>18,747,013</u>	<u>18,802,607</u>	<u>-</u>	<u>18,802,607</u>
CHANGE IN NET ASSETS	<u>13,969</u>	<u>262,389</u>	<u>276,358</u>	<u>674,711</u>	<u>(36,567)</u>	<u>638,144</u>
NET ASSETS, BEGINNING OF YEAR	<u>5,619,393</u>	<u>868,444</u>	<u>6,487,837</u>	<u>4,944,682</u>	<u>905,011</u>	<u>5,849,693</u>
NET ASSETS, END OF YEAR	<u>\$ 5,633,362</u>	<u>\$ 1,130,833</u>	<u>\$ 6,764,195</u>	<u>\$ 5,619,393</u>	<u>\$ 868,444</u>	<u>\$ 6,487,837</u>

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended December 31, 2017 and 2016

	December 31, 2017				December 31, 2016			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 6,134,282	\$ 1,300,643	\$ 43,340	\$ 7,478,265	\$ 5,776,233	\$ 1,312,316	\$ 43,199	\$ 7,131,748
Payroll taxes and employee benefits	1,966,306	419,083	13,717	2,399,106	1,818,095	411,441	13,656	2,243,192
Total personnel costs	8,100,588	1,719,726	57,057	9,877,371	7,594,328	1,723,757	56,855	9,374,940
Donated services and goods (Note 2)	3,756,313			3,756,313	4,479,313			4,479,313
Sub-grants	3,010,279			3,010,279	2,965,041			2,965,041
Professional fees	283,823	69,910	73,396	427,129	226,516	70,112	54,569	351,197
Occupancy	341,168	31,222	1,308	373,698	365,735	27,870	1,200	394,805
Office supplies and expense	253,843	15,361	511	269,715	234,875	17,465	577	252,917
Depreciation	118,011	92,638		210,649	125,789	98,653		224,442
Equipment rental and maintenance	110,343	55,220	7,077	172,640	81,679	50,909	4,565	137,153
Telephone	134,613	14,423	465	149,501	129,763	13,593	438	143,794
Travel and training	126,572	6,038	7	132,617	126,087	4,883	39	131,009
Dues and subscriptions	63,688	10,795		74,483	55,988	10,030		66,018
Miscellaneous	27,873	29,611	3,447	60,931	18,539	13,369	11,368	43,276
Special event			58,575	58,575			59,769	59,769
Insurance	40,592	12,232	395	53,219	39,060	16,037	517	55,614
Litigation	43,244			43,244	47,512			47,512
Meetings and events	25,018	14,113		39,131	28,461	12,783	11	41,255
Library maintenance	37,518			37,518	34,552			34,552
TOTAL FUNCTIONAL EXPENSES	\$ 16,473,486	\$ 2,071,289	\$ 202,238	\$ 18,747,013	\$ 16,553,238	\$ 2,059,461	\$ 189,908	\$ 18,802,607

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 276,358	\$ 638,144
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Legal services exchanged for reduction of debt	(15,736)	(15,036)
Depreciation	210,649	224,442
Interest and dividends reinvested	(34,226)	(29,762)
Loss from investments	5,689	12,422
(Increase) decrease in operating assets:		
Grants receivable	301,029	(155,020)
Pledges receivable	36,058	35,631
Prepaid expenses and deposits	(5,298)	2,735
Increase (decrease) in liabilities:		
Accounts payable	(916)	100,932
Accrued liabilities	9,365	709
Accrued unemployment liability	26,965	10,172
Deferred revenue	(397,195)	(133,577)
	412,742	691,792
CASH FLOWS TO INVESTING ACTIVITIES:		
Proceeds from sale of investments	2,301,846	2,595,841
Purchase of investments	(2,290,956)	(3,253,214)
Purchase of property and equipment	(40,621)	(10,800)
	(29,731)	(668,173)
NET INCREASE IN CASH	383,011	23,619
CASH, BEGINNING OF YEAR	559,923	536,304
CASH, END OF YEAR	\$ 942,934	\$ 559,923
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Building improvements financed with forgivable loan with provisions for services:	\$ -	\$ 27,407
Repayment of notes payable by providing legal and other services:	\$ 15,736	\$ 15,036

The accompanying notes are an integral part of these financial statements.

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Neighborhood Legal Services of Los Angeles County (“NLSLA”) is a California not-for-profit corporation organized for the purpose of providing free legal assistance on civil matters to low-income persons who reside in Los Angeles County, when they are unable to afford such services through customary channels.

NLSLA is funded by donations, grants, and contracts from federal, state, county, and municipal government, private foundations, corporations, and individuals.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of NLSLA are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. NLSLA reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit NLSLA to expend all of the income (or other economic benefits) derived from the donated assets. NLSLA had no permanently restricted net assets at December 31, 2017 and 2016.

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Grant Funding

NLSLA receives multi-year grant funding from various sources, which, in accordance with generally accepted accounting principles, are recorded in the period received or pledged. However, expenditures related to these grants can occur over several years. As a result, timing differences are created which can have an effect on changes in net assets.

Grants Receivable

Grants receivable are receivables from government entities and other organizations. No allowance for doubtful accounts has been provided as the amounts earned are deemed collectible for services rendered.

Investments

NLSLA values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain (loss) on investments. Short-term highly liquid money market deposits and certificate of deposits that are not used for operations are treated as investments.

Fair Value Measurement

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

NLSLA is required to measure donated services and pledged contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes that relate to each element.

continued

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Concentration of Credit Risks

NLSLA places its temporary cash investments with high credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. NLSLA has not incurred losses related to these investments.

The grants receivable balance outstanding at December 31, 2017 and 2016 consists of government contract and grant receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to these receivables is limited, as the majority of NLSLA's receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 68% and 64% of NLSLA's total revenue was derived from government contracts for the years ended December 31, 2017 and 2016, respectively. Additionally, for the years ended December 31, 2017 and 2016, revenue from one government funding source was approximately 23% and 23% of total revenue, respectively.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year.

Property and equipment acquired with federal funds or Legal Services Corporation ("LSC") funds are considered to be owned by NLSLA while used in the program or in future authorized programs. However, funding sources have reversionary interest in these assets as well as the determination of use of any proceeds from the sale of these assets.

Attorney Fees and Costs

Attorney fees and costs support result from reimbursement of litigation costs awarded by the court because of favorable resolutions. Because of the uncertainty surrounding the receipt of contributions and attorney fees and costs, NLSLA recognizes this support in the period in which the cash is received and the related case is ultimately resolved.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are measured on a non-recurring basis and recorded at fair value in the period received. NLSLA has received significant contributions of non-cash legal services. The value of contributed legal services and donated goods meeting the requirement of recognition in the financial statements was \$3,756,313 and \$4,479,313 for the years ended December 31, 2017 and 2016, respectively.

continued

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Clients' Trust Deposits

NLSLA holds funds in trust for its clients relating to settlements awarded by the courts and deposits held for filing and other fees. The balance of such accounts is included as both an asset and a liability of NLSLA because NLSLA has a fiduciary responsibility to account for such funds. While such amounts are included in the financial statements, they are separate from the assets and liabilities of NLSLA. As of December 31, 2017 and 2016, clients' trust deposits accounts did not have balances in either asset or in the corresponding liability.

Income Taxes

NLSLA is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). In addition, NLSLA has been determined by the Internal Revenue Service and the Franchise Tax Board not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code and Section 23709 of the Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by NLSLA in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. NLSLA's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing NLSLA's programs and other activities have been presented in the Statements of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through May 7, 2018, the date which the financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable

Unconditional promises to give (pledges receivable) that are expected to be collected in future years are measured on a non-recurring basis at the date of the pledge. All pledges are valued at estimated fair value at December 31, 2017. NLSLA establishes an allowance for doubtful accounts, which is determined by considering a number of factors, including the length of time pledges receivable are past due, and the pledgers' current ability to pay its obligation owed to NLSLA. The allowance for doubtful accounts at December 31, 2017 and 2016 was \$9,991 and \$8,000, respectively. Total pledges receivable at December 31, 2017 and 2016 of \$50,237 and \$86,295, respectively, are expected to be collected within one year and are as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable, gross	\$60,228	\$94,295
Less: allowance for doubtful accounts	<u>9,991</u>	<u>8,000</u>
Pledge receivable, net	<u>\$50,237</u>	<u>\$86,295</u>

4. Investments

Investments at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$3,410,161	\$3,490,613
Money market	<u>600,132</u>	<u>502,033</u>
	<u>\$4,010,293</u>	<u>\$3,992,646</u>

5. Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

<u>December 31, 2017</u>	<u>LSC</u>	<u>Non-LSC</u>	<u>Total</u>
Land	\$ 111,848	\$ 137,965	\$ 249,813
Building improvements	1,237,923	1,640,123	2,878,046
Building	1,666,294	219,020	1,885,314
Equipment	159,539		159,539
Furniture	141,726	8,877	150,603
Computer software	118,150		118,150
Computer hardware	<u>40,621</u>		<u>40,621</u>
	3,476,101	2,005,985	5,482,086
Less: accumulated depreciation	<u>(1,992,554)</u>	<u>(1,270,130)</u>	<u>(3,262,684)</u>
	<u>\$ 1,483,547</u>	<u>\$ 735,855</u>	<u>\$ 2,219,402</u>

continued

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment, continued

<u>December 31, 2016</u>	<u>LSC</u>	<u>Non-LSC</u>	<u>Total</u>
Land	\$ 111,848	\$ 137,965	\$ 249,813
Building improvements	1,237,923	1,640,123	2,878,046
Building	1,666,294	219,020	1,885,314
Equipment	159,539		159,539
Furniture	143,782	8,877	152,659
Computer software	<u>118,151</u>	<u>6,360</u>	<u>124,511</u>
	3,437,537	2,012,345	5,449,882
Less: accumulated depreciation	<u>(1,826,301)</u>	<u>(1,234,151)</u>	<u>(3,060,452)</u>
	<u>\$ 1,611,236</u>	<u>\$ 778,194</u>	<u>\$ 2,389,430</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$210,649 and \$224,442, respectively.

6. Accrued Liabilities

Accrued liabilities at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Accrued vacation	<u>\$392,639</u>	<u>\$385,774</u>
Other	<u>59,655</u>	<u>57,155</u>
	<u>\$452,294</u>	<u>\$442,929</u>

7. Accrued Unemployment Liability

NLSLA has elected to be self-insured for the purposes of California State Unemployment Insurance. The accrued unemployment liability at December 31, 2017 and 2016, of \$140,723 and \$113,758, respectively, represents estimated future claims arising from payroll paid through those year ends. Unemployment expense for the years ended December 31, 2017 and 2016 was \$19,557 and \$29,148, respectively.

8. Line of Credit

NLSLA has a revolving line of credit, with a bank, in the amount of \$1,000,000, secured by real property, with a variable interest rate of prime rate plus 1.35% with a minimum interest rate of 5%, due March 15, 2021. There was no outstanding balance at December 31, 2017 and 2016.

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

9. Notes Payable

Notes payable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Note payable to the City of Glendale, with an interest rate of 0% per annum. This note is collateralized by a trust deed. Under the terms of the loan agreement, NLSLA shall provide services to the residents of the City of Glendale and complete quarterly reports, and shall receive an annual credit of \$8,871 toward the unpaid balance of the note. Annual credits are also recognized as “legal services exchanged for reduction of debt” in the Statements of Activities. The loan was reduced to a zero balance in fiscal year 2017.	\$ -	\$ 5,425
Note payable to the City of Glendale, with an interest rate of 0% per annum. This note is collateralized by a trust deed. Under the terms of the loan agreement, NLSLA shall provide services to the residents of the City of Glendale and complete quarterly reports, and shall receive an annual credit of \$12,400 toward the unpaid balance of the note. Annual credits are also recognized as “legal services exchanged for reduction of debt” in the Statements of Activities.	30,327	36,527
Note payable to the City of Los Angeles, with an interest rate of 0% per annum. This note is collateralized by a trust deed. Under the terms of the loan agreement, NLSLA shall provide services to Los Angeles residents, and shall receive an annual credit of \$5,481 toward the unpaid balance of the note. Annual credits are also recognized as “legal services exchanged for reduction of debt” in the Statements of Activities.	<u>23,296</u>	<u>27,407</u>
	<u>\$53,623</u>	<u>\$69,359</u>

Maturities for notes payable are as follows:

<u>Year ended December 31,</u>	
2018	\$17,882
2019	17,882
2020	11,009
2021	5,482
2022	<u>1,368</u>
	<u>\$53,623</u>

continued

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

Obligations under Operating Leases

NLSLA leases various facilities and equipment under operating leases with various terms. Subsequent to fiscal year 2017, NLSLA was informed by its El Monte office building landlord that the building complex will be demolished and renovated in mid-2018; consequently, NLSLA must vacate the El Monte office building by May 31, 2018. NLSLA is in the process of negotiating and signing a new 5-year El Monte office space lease agreement for approximately \$9,608 per month or \$115,296 annually. This pending estimate for an El Monte office building lease is included in the schedule below. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2018	\$254,562
2019	160,499
2020	124,224
2021	124,764
2022	124,508
Thereafter	<u>41,256</u>
	<u>\$829,813</u>

Rent and equipment lease expense under operating leases for the years ended December 31, 2017 and 2016 was \$245,718 and \$210,372, respectively.

Contracts

NLSLA's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, NLSLA has no provisions for the possible disallowance of program costs on its financial statements.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Legal services (LSC funding)	\$ 869,872	\$603,911
Health advocacy fund	168,203	165,819
Veterans initiative project	47,510	41,672
Other	<u>45,248</u>	<u>57,042</u>
	<u>\$1,130,833</u>	<u>\$868,444</u>

For the years ended December 31, 2017 and 2016, net assets released from program restrictions were \$4,298,775 and \$4,509,993, respectively.

continued

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

11. Temporarily Restricted Net Assets, continued

In accordance with 45 CFR Section 1628, NLSLA received approval from the LSC to waive the 10% ceiling on the December 31, 2016 LSC fund balance. The LSC fund balance as of December 31, 2016 was \$603,911 and, of that, \$162,794 reflects the portion in excess of 10% which was expended in full in the year ended December 31, 2017 on salaries, benefits, professional fees, training, and equipment as disclosed in the waiver request letter.

12. Fair Value Measurements

The table below presents the transactions measured at fair value on a non-recurring basis at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated services	\$ -	\$3,756,313	\$ -	\$3,756,313
Pledged contributions - new			<u>53,775</u>	<u>53,775</u>
	<u>\$ -</u>	<u>\$3,756,313</u>	<u>\$53,775</u>	<u>\$3,810,088</u>

The fair value of donated services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions is measured on a non-recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

13. Government Contracts

Government contracts for the years ended December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Legal Services Corporation	\$ 4,383,963	\$ 4,375,964
Shriver Housing Project – Los Angeles	2,695,228	2,791,514
County of Los Angeles – Self Help Centers	2,328,296	2,288,081
County of Los Angeles – CalWORKs DVSS	883,784	624,066
DMHC Consumer Assistance Program	610,253	533,084
Equal Access to Justice	477,020	352,530
Interest on Lawyers Trust Account	306,060	306,570
DMHC CCI	305,303	282,496
Department of Justice – Violence Against Women Act	246,018	125,975
Covered California	177,691	251,730
Equal Access Partnership	162,000	124,000
County of Los Angeles – CSBG BUILD	137,253	118,283
LSTF – HOGAR Foreclosure Prevention	74,563	82,271
Pomona Self-Help Center Access to Justice Intern Project	59,540	44,080
LSC – Pro Bono Innovation Fund	54,368	10,195

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

13. Government Contracts, continued

Children’s Outreach Enrollment Utilization and Retention		
Training Grant	51,393	64,964
El Monte Mobile Home Park	10,631	14,470
California Department of Social Services –		
Unaccompanied Minors	10,000	56,500
IOLTA Planning Grant	6,639	3,361
California Office of Emergency Services –		
Victims of Crime Act	3,390	-
City of Los Angeles - Family Source Program	<u>-</u>	<u>41,316</u>
	<u>\$12,983,393</u>	<u>\$12,491,450</u>

14. Employee Benefit Plan

Retirement benefits are provided to employees under a non-contributory, non-qualified tax deferred annuity pension plan. Under the plan, NLSLA contributes an amount equal to 3% of each participant’s annual compensation for employees with less than five years of service, 6% for employees with more than five years and up to ten years of service, and 9% for employees with more than ten years of service. There are no past service costs associated with the plan, and employees are fully vested for all contributions on their behalf. Total contributions were \$440,759 in 2017 and \$440,178 in 2016.

15. Pomona Self-Help Center Access to Justice Intern Project

Effective September 2014, the County of Los Angeles contracted with NLSLA for \$310,000 over a period of five years to hire, train and support two Justice Interns to provide services at the Pomona Self-Help Legal Access Center. In 2017, NLSLA expended \$59,540 in personnel expenses towards the project, and \$186,407 in total. As of December 31, 2017, \$123,593 remains to be spent through August 31, 2019.

16. Private Attorney Involvement

LSC requires that an amount equal to 12.5% of its current grant be utilized for private attorney involvement (“PAI”). NLSLA’s PAI requirement and the related expenses during the year ended December 31, 2017 is summarized as follows:

Support:	
LSC basic grant	\$4,383,963
	<u> x 12.5%</u>
PAI requirement	<u>\$ 547,995</u>

**NEIGHBORHOOD LEGAL SERVICES
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

16. Private Attorney Involvement, continued

Expenses:

Personnel salaries:	
Lawyers, paralegals, clerical, and administrative staff	\$ 1,023,145
Employee benefits	328,225
Office expense	66,092
Occupancy	44,171
Professional fees	31,442
Equipment rental and maintenance	29,991
Telephone	19,085
Travel and training	6,339
Insurance	6,290
Library maintenance	4,435
Delivery	4,221
Litigation	3,729
Meeting and events	1,356
Dues and subscriptions	120
Other	<u>33</u>
	<u>\$1,568,674</u>

Net PAI expenses (over) the requirement threshold \$(1,020,679)

SUPPLEMENTAL SCHEDULES

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

SCHEDULE OF REVENUE, SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS
FOR LEGAL SERVICES CORPORATION FUNDS

For the year ended December 31, 2017

	Basic Field Grant	Carryover	LSC Pro Bono Innovative Grant	Property	Total
Revenue and support					
Government contracts	\$ 4,383,963	\$ -	\$ 54,368	\$ -	\$ 4,438,331
Rental income	33,636				33,636
Attorney fees and costs	12,224				12,224
Income from investments	1,713				1,713
Other revenue					-
Total revenue and support	4,431,536	-	54,368	-	4,485,904
Expenses					
Salaries and wages	2,094,738	2,977	36,822		2,134,537
Payroll taxes and employee benefits	668,100	953	11,881		680,934
Total personnel costs	2,762,838	3,930	48,703	-	2,815,471
Professional fees	248,124	114,640			362,764
Occupancy	338,970				338,970
Depreciation				168,310	168,310
Office supplies and expense	129,354	1,789	157		131,300
Telephone	98,938		1		98,939
Equipment rental and maintenance	97,266		38		97,304
Travel and training	70,390	1,814	2,699		74,903
Special event - Just Neighbors	58,445				58,445
Insurance	48,668				48,668
Capital purchases		40,621		(40,621)	-
Miscellaneous	38,228				38,228
Library maintenance	34,493				34,493
Meetings and events	31,904				31,904
Dues and subscriptions	25,693				25,693
Litigation	22,240				22,240
Total expenses	4,005,551	162,794	51,598	127,689	4,347,632
Changes in net assets	425,985	(162,794)	2,770	(127,689)	138,272
Net assets, beginning of year	441,117	162,794	-	1,611,236	2,215,147
Net assets, end of year	\$ 867,102	\$ -	\$ 2,770	\$ 1,483,547	\$ 2,353,419

See independent auditors' report.

NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

SCHEDULE OF REVENUE, SUPPORT, AND EXPENSES BY GRANT
For the year ended December 31, 2017

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Foundations</u>	<u>Unrestricted</u>	<u>Plant</u>	<u>Total</u>
Revenue and support							
Government contracts (Note 13)	\$ 4,684,347	\$ 4,828,148	\$ 3,470,898	\$ -	\$ -	\$ -	\$ 12,983,393
Donated services (Note 2)					3,756,313		3,756,313
Foundations				1,795,686	9,000		1,804,686
Contributions				9,000	161,579		170,579
Special event					104,811		104,811
Fellowship income					70,587		70,587
Rental income	33,636				26,339		59,975
Income from investments	1,713			3,047	23,777		28,537
Attorney fees and costs	12,224			500	10,919		23,643
Legal services exchanged for reduction of debt						15,736	15,736
Insurance reimbursement					5,111		5,111
Other revenue							-
Total revenue and support	<u>4,731,920</u>	<u>4,828,148</u>	<u>3,470,898</u>	<u>1,808,233</u>	<u>4,168,436</u>	<u>15,736</u>	<u>19,023,371</u>
Expenses							
Salaries and wages	2,262,180	2,005,055	1,896,110	1,269,322	45,598		7,478,265
Payroll taxes and employee benefits	722,101	639,925	610,741	411,662	14,677		2,399,106
Total personnel costs	<u>2,984,281</u>	<u>2,644,980</u>	<u>2,506,851</u>	<u>1,680,984</u>	<u>60,275</u>	<u>-</u>	<u>9,877,371</u>
Donated services and goods					3,756,313		3,756,313
Sub-grants	61,909	2,077,902	870,468				3,010,279
Professional fees	362,764	21,176	13,153	30,036			427,129
Occupancy	341,992	10,307	7,340	5,545	8,514		373,698
Office supplies and expense	133,001	34,812	86,518	15,050	334		269,715
Depreciation						210,649	210,649
Equipment rental and maintenance	97,374	26,595	29,110	19,525	36		172,640
Telephone	100,159	21,893	8,941	18,508			149,501
Travel and training	76,848	15,071	10,376	29,823	499		132,617
Dues and subscriptions	25,693	43,211		1,010	4,569		74,483
Miscellaneous	38,405	1,551	433	4,891	15,651		60,931
Special Event - Just Neighbors	58,445				130		58,575
Insurance	48,668	1,994	2,518	39			53,219
Litigation	29,350	4,396	8,112	1,386			43,244
Meetings and events	31,956	831		3,590	2,754		39,131
Library maintenance	34,493	1,606		1,419			37,518
Capital purchases	40,621					(40,621)	-
Total expenses	<u>4,465,959</u>	<u>4,906,325</u>	<u>3,543,820</u>	<u>1,811,806</u>	<u>3,849,075</u>	<u>170,028</u>	<u>18,747,013</u>
Revenue and support over (under) expenses	<u>\$ 265,961</u>	<u>\$ (78,177)</u>	<u>\$ (72,922)</u>	<u>\$ (3,573)</u>	<u>\$ 319,361</u>	<u>\$ (154,292)</u>	<u>\$ 276,358</u>

See independent auditors' report.