

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

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**FINANCIAL STATEMENTS  
and  
SUPPLEMENTAL SCHEDULES**

**DECEMBER 31, 2018 and 2017**

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## INDEPENDENT AUDITORS' REPORT

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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, 2018 and 2017, 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, 2018 and 2017, 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

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### 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 24, 2019, 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 24, 2019

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
Cash	\$ 742,003	\$ 942,934
Grants and other receivables	2,873,260	2,085,384
Pledges receivable, net (Note 4)	18,530	50,237
Prepaid expenses and deposits	105,307	66,470
Investments (Note 5)	3,809,947	4,010,293
Property and equipment (Note 6)	2,079,921	2,219,402
<b>TOTAL ASSETS</b>	<b>\$ 9,628,968</b>	<b>\$ 9,374,720</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,280,851	\$ 1,032,604
Accrued liabilities (Note 7)	548,101	452,294
Accrued unemployment liability (Note 8)	157,945	140,723
Deferred revenue	736,163	931,281
Line of credit (Note 9)	-	-
Notes payable (Note 10)	35,742	53,623
<b>TOTAL LIABILITIES</b>	<b>2,758,802</b>	<b>2,610,525</b>
<b>NET ASSETS</b>		
Without donor restrictions	5,831,755	5,633,362
With donor restrictions (Note 12)	1,038,411	1,130,833
<b>TOTAL NET ASSETS</b>	<b>6,870,166</b>	<b>6,764,195</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 9,628,968</b>	<b>\$ 9,374,720</b>

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, 2018 and 2017

	December 31, 2018			December 31, 2017		
	Without	With	Total	Without	With	Total
	Donor Restrictions	Donor Restrictions		Donor Restrictions	Donor Restrictions	
<b>REVENUE AND SUPPORT</b>						
Government contracts (Note 14)	\$ 9,627,017	\$ 4,831,776	\$ 14,458,793	\$ 8,545,062	\$ 4,438,331	\$ 12,983,393
Donated services (Note 2)	2,477,847		2,477,847	3,756,313		3,756,313
Foundations	1,220,816	12,000	1,232,816	1,690,853	113,833	1,804,686
Attorney fees and costs	285,456		285,456	23,643		23,643
Fellowship income	119,988		119,988	70,587		70,587
Special event	106,085		106,085	104,811		104,811
Rental income	63,774		63,774	59,975		59,975
Income from investments	61,214		61,214	28,537		28,537
Contributions	26,523	18,000	44,523	161,579	9,000	170,579
Legal services exchanged for reduction of debt	17,881		17,881	15,736		15,736
Insurance reimbursement			-	5,111		5,111
Net assets released from restrictions (Note 12)	4,954,198	(4,954,198)	-	4,298,775	(4,298,775)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>18,960,799</u>	<u>(92,422)</u>	<u>18,868,377</u>	<u>18,760,982</u>	<u>262,389</u>	<u>19,023,371</u>
<b>EXPENSES</b>						
Program services	16,004,503		16,004,503	16,473,486		16,473,486
Management and general	2,509,185		2,509,185	2,071,289		2,071,289
Fundraising	248,718		248,718	202,238		202,238
<b>TOTAL EXPENSES</b>	<u>18,762,406</u>	<u>-</u>	<u>18,762,406</u>	<u>18,747,013</u>	<u>-</u>	<u>18,747,013</u>
<b>CHANGE IN NET ASSETS</b>	<u>198,393</u>	<u>(92,422)</u>	<u>105,971</u>	<u>13,969</u>	<u>262,389</u>	<u>276,358</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<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>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,831,755</u>	<u>\$ 1,038,411</u>	<u>\$ 6,870,166</u>	<u>\$ 5,633,362</u>	<u>\$ 1,130,833</u>	<u>\$ 6,764,195</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 year ended December 31, 2018

	Programs							Total Program Expenses	Management and General	Fundraising	Total Expenses	
	General Legal Services	Housing and Eviction Defense	Self Help Center	Health	Domestic Violence	Antelope Valley	Clean Slate Initiative					Disaster Relief
Salaries and wages	\$ 2,501,517	\$ 642,400	\$ 1,073,968	\$ 1,494,592	\$ 796,151	\$ 140,883	\$ 47,176	\$ 33,312	\$ 6,729,999	\$ 1,609,164	\$ 45,303	\$ 8,384,466
Payroll taxes and employee benefits	755,492	202,082	333,504	465,350	252,581	43,989	14,474	9,981	2,077,453	480,853	14,320	2,572,626
Total personnel costs	3,257,009	844,482	1,407,472	1,959,942	1,048,732	184,872	61,650	43,293	8,807,452	2,090,017	59,623	10,957,092
Sub-grants		1,559,686	838,063	304,658	100,684				2,803,091			2,803,091
Donated services and goods (Note 2)	621,468	13,078	709,656	777,144	311,916				2,433,262	44,585		2,477,847
Professional fees	313,398	23,406	2,525	60,374	8,508	19,545	1,409		429,165	77,843	80,220	587,228
Occupancy	304,160	10,067	11	18,266	18,569				351,073	27,588	1,191	379,852
Office supplies and expense	137,005	20,218	75,571	25,851	9,814	4,355	1,618	698	275,130	17,312	593	293,035
Depreciation	119,368	8,349							127,717	81,491		209,208
Telephone	121,805	7,282	2,222	33,242	6,911	3,312		129	174,903	20,285	654	195,842
Equipment rental and maintenance	60,403	19,421	23,566	16,414	2,754	1,564	343	375	124,840	57,505	7,884	190,229
Travel and training	92,165	20,124	4,268	27,172	8,871	9,268	751	1,022	163,641	9,514		173,155
Miscellaneous	26,480	7,716	636	2,955	18			142	37,947	46,717	35,522	120,186
Litigation	44,282	15,070	68	5,783	17,514	3,410	781		86,908	252		87,160
Dues and subscriptions	58,292	1,301	85	165					59,843	10,654		70,497
Insurance	45,011	2,202		3,122	2,776	327			53,438	12,175	393	66,006
Special event									-		62,638	62,638
Meetings and events	29,300	263	44	2,451	65	265	24	20	32,432	13,247		45,679
Library maintenance	41,409			2,252					43,661			43,661
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 5,271,555</b>	<b>\$ 2,552,665</b>	<b>\$ 3,064,187</b>	<b>\$ 3,239,791</b>	<b>\$ 1,537,132</b>	<b>\$ 226,918</b>	<b>\$ 66,576</b>	<b>\$ 45,679</b>	<b>\$ 16,004,503</b>	<b>\$ 2,509,185</b>	<b>\$ 248,718</b>	<b>\$ 18,762,406</b>

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

**NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY**

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	Programs					Total Program Expenses	Management and General	Fundraising	Total Expenses
	General Legal Services	Housing and Eviction Defense	Self Help Center	Health	Domestic Violence				
Salaries and wages	\$ 2,082,152	\$ 465,672	\$ 1,108,092	\$ 1,721,996	\$ 756,370	\$ 6,134,282	\$ 1,300,643	\$ 43,340	\$ 7,478,265
Payroll taxes and employee benefits	659,945	149,997	356,479	555,985	243,901	1,966,307	419,083	13,717	2,399,107
Total personnel costs	<u>2,742,097</u>	<u>615,669</u>	<u>1,464,571</u>	<u>2,277,981</u>	<u>1,000,271</u>	<u>8,100,589</u>	<u>1,719,726</u>	<u>57,057</u>	<u>9,877,372</u>
Sub-grants		1,998,996	870,468	78,906	61,909	3,010,279			3,010,279
Donated services and goods (Note 2)	303,821	1,425,913	709,515	742,637	574,427	3,756,313			3,756,313
Professional fees	243,940	9,173		24,554	6,156	283,823	69,910	73,396	427,129
Occupancy	325,590	725		4,491	10,362	341,168	31,222	1,308	373,698
Office supplies and expense	127,734	13,043	85,374	19,425	8,268	253,844	15,361	511	269,716
Depreciation	118,011					118,011	92,638		210,649
Telephone	96,024	6,859	2,555	23,499	5,676	134,613	14,423	465	149,501
Equipment rental and maintenance	54,507	14,790	21,785	16,341	2,920	110,343	55,220	7,077	172,640
Travel and training	76,077	9,913	4,185	27,841	8,556	126,572	6,038	7	132,617
Miscellaneous	22,366	349	298	4,546	312	27,871	29,611	3,447	60,929
Litigation	24,088	2,881		1,052	15,223	43,244			43,244
Dues and subscriptions	61,622	1,645		421		63,688	10,795		74,483
Insurance	38,110				2,482	40,592	12,232	395	53,219
Special event						-		58,575	58,575
Meetings and events	20,599	652	117	3,598	52	25,018	14,113		39,131
Library maintenance	36,290			1,228		37,518			37,518
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 4,290,876</u>	<u>\$ 4,100,608</u>	<u>\$ 3,158,868</u>	<u>\$ 3,226,520</u>	<u>\$ 1,696,614</u>	<u>\$ 16,473,486</u>	<u>\$ 2,071,289</u>	<u>\$ 202,238</u>	<u>\$ 18,747,013</u>

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, 2018 and 2017

	2018	2017
<b>CASH FLOWS (TO) FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 105,971	\$ 276,358
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Legal services exchanged for reduction of debt	(17,881)	(15,736)
Depreciation	209,208	210,649
Interest and dividends reinvested	(64,873)	(34,226)
Loss from investments	3,659	5,689
(Increase) decrease in operating assets:		
Grants receivable	(787,876)	301,029
Pledges receivable	31,707	36,058
Prepaid expenses and deposits	(38,837)	(5,298)
Increase (decrease) in liabilities:		
Accounts payable	248,247	(916)
Accrued liabilities	95,807	9,365
Accrued unemployment liability	17,222	26,965
Deferred revenue	(195,118)	(397,195)
	<b>(392,764)</b>	412,742
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	2,015,922	2,301,846
Purchase of investments	(1,754,362)	(2,290,956)
Purchase of property and equipment	(69,727)	(40,621)
	<b>191,833</b>	(29,731)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(200,931)</b>	383,011
<b>CASH, BEGINNING OF YEAR</b>	<b>942,934</b>	559,923
<b>CASH, END OF YEAR</b>	<b>\$ 742,003</b>	\$ 942,934
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Repayment of notes payable by providing legal and other services:	<b>\$ 17,881</b>	\$ 15,736

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

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 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.

#### Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

**With Donor Restrictions.** Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Per the *Accounting Guide for LSC Recipients*, LSC grant and contract funds should be recognized, classified and reported in the recipient’s financial statements as with donor restrictions and an increase to with donor restrictions net assets. LSC net assets can be released from restriction only when eligible expenses are incurred.

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 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 below that relate to each element.

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 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 and other receivables balance outstanding at December 31, 2018 and 2017 consists primarily 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 77% and 68% of NLSLA's total revenue was derived from government contracts for the years ended December 31, 2018 and 2017, respectively. Additionally, for the years ended December 31, 2018 and 2017, revenue from one government funding source was approximately 27% and 24% 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 such funding, NLSLA recognizes this support in the period in which the cash is received and the related case is ultimately resolved.

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **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 \$2,477,847 and \$3,756,313 for the years ended December 31, 2018 and 2017, respectively.

#### **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, 2018 and 2017, clients' trust deposits of \$7,300 and \$0, respectively, were included in cash. And, the same amounts, for the respective years, were included in "other" accrued liabilities.

#### **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.

# NEIGHBORHOOD LEGAL SERVICES OF LOS ANGELES COUNTY

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### 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.

#### Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. NLSLA's financial statements for years ended December 31, 2018 and 2017 are presented in accordance with ASU 2016-14.

#### Subsequent Events

Management has evaluated subsequent events through May 24, 2019, 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.

### 3. Liquidity and Availability of Resources

NLSLA monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

NLSLA has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 90 days of normal operating expenses, which are, on average, approximately \$4,500,000. NLSLA has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

continued

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

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**3. Liquidity and Availability of Resources, continued**

NLSLA has \$7,436,440 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$734,703, grants receivable of \$2,873,260, pledges receivable, net of \$18,530, and short-term investments of \$3,809,947. None of these financial assets are subject to donor or other contractual restrictions that would make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivable is subject to implied time restrictions but are expected to be collected within one year.

In addition to financial assets available to meet general expenditures over the next 12 months, NLSLA operates within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows which identifies the sources and uses of NLSLA's cash and shows positive cash for years ended December 31, 2018 and 2017.

NLSLA has various sources of liquidity at its disposal. As part of its liquidity management plan, NLSLA invests cash in excess of daily requirements in short-term investments, certificates of deposits, and money market funds. As more fully described in Note 9, NLSLA also has a revolving line of credit, with a bank, in the amount of \$1,000,000, which it could draw upon in the event of an unanticipated liquidity level.

**4. 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, 2018. 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, 2018 and 2017 was \$44,416 and \$9,991, respectively. Total pledges receivable at December 31, 2018 and 2017 of \$18,530 and \$50,237, respectively, are expected to be collected within one year and are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable, gross	\$62,946	\$60,228
Less: allowance for doubtful accounts	<u>44,416</u>	<u>9,991</u>
Pledge receivable, net	<u>\$18,530</u>	<u>\$50,237</u>

**5. Investments**

Investments at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$3,277,052	\$3,410,161
Money market	<u>532,895</u>	<u>600,132</u>
	<u>\$3,809,947</u>	<u>\$4,010,293</u>

continued

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

**6. Property and Equipment**

Property and equipment at December 31, 2018 and 2017 consist of the following:

<u>December 31, 2018</u>	<u>LSC</u>	<u>Non-LSC</u>	<u>Total</u>
Land	\$ 111,848	\$ 137,965	\$ 249,813
Building improvements	1,237,923	1,647,761	2,885,684
Building	1,666,294	219,020	1,885,314
Equipment	167,707		167,707
Furniture	141,558	47,239	188,797
Computer software	118,150	7,500	125,650
Computer hardware	40,621		40,621
	<u>3,484,101</u>	<u>2,059,485</u>	<u>5,543,586</u>
Less: accumulated depreciation	<u>(2,150,983)</u>	<u>(1,312,682)</u>	<u>(3,463,665)</u>
	<u>\$ 1,333,118</u>	<u>\$ 746,803</u>	<u>\$ 2,079,921</u>
<u>December 31, 2017</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	40,621		40,621
	<u>3,476,101</u>	<u>2,005,985</u>	<u>5,482,086</u>
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>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$209,208 and \$210,649, respectively.

**7. Accrued Liabilities**

Accrued liabilities at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accrued vacation	<u>\$433,576</u>	\$392,639
Other	<u>114,525</u>	59,655
	<u>\$548,101</u>	<u>\$452,294</u>

continued



**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

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**8. 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, 2018 and 2017, of \$157,945 and \$140,723, respectively, represents estimated future claims arising from payroll paid through those year ends. Unemployment expense for the years ended December 31, 2018 and 2017 was \$15,896 and \$19,557, respectively.

**9. 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, 2018 and 2017.

**10. Notes Payable**

Notes payable at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</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 \$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.	<b>\$17,927</b>	\$30,327
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>17,815</u>	<u>23,296</u>
	<b><u>\$35,742</u></b>	<b><u>\$53,623</u></b>

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

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**10. Notes Payable, continued**

Maturities for notes payable are as follows:

<u>Year ending December 31,</u>	
2019	\$17,881
2020	11,008
2021	5,481
2022	<u>1,372</u>
	<u>\$35,742</u>

**11. Commitments and Contingencies**

**Obligations under Operating Leases**

NLSLA leases various facilities and equipment under operating leases with various terms. 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 ending December 31,</u>	
2019	\$ 332,967
2020	209,482
2021	211,848
2022	216,644
2023	<u>147,288</u>
	<u>\$1,118,229</u>

Rent and equipment lease expense under operating leases for the years ended December 31, 2018 and 2017 was \$269,440 and \$245,718, 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.

continued

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

**12. Net Assets With Donor Restrictions**

Net assets with donor restrictions at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Purpose restrictions:		
Legal services (LSC funding)	\$ 766,303	\$ 869,872
Health advocacy fund	186,203	168,203
Other	<u>85,905</u>	<u>92,758</u>
	<u><b>\$1,038,411</b></u>	<u><b>\$1,130,833</b></u>

For the years ended December 31, 2018 and 2017, net assets released from purpose restrictions were as follows:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restriction:		
Legal services	\$4,935,345	\$4,172,370
Health advocacy fund	-	6,616
Other	<u>18,853</u>	<u>119,789</u>
	<u><b>\$4,954,198</b></u>	<u><b>\$4,298,775</b></u>

In accordance with 45 CFR Section 1628, NLSLA received approval from the LSC to waive the 10% ceiling on the December 31, 2017 LSC fund balance. The LSC fund balance as of December 31, 2017 was \$867,102 and, of that, \$423,948 represents the portion in excess of 10% to be expended in 2018 on the new EL Monte office tenant improvement project. NLSLA requested and received approval from LSC to expend the 2017 excess funds in full on the El Monte tenant improvements project by June 30, 2019.

**13. Fair Value Measurements**

The table below presents the balances of assets measured at fair value at December 31, 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	<u>\$3,277,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u><b>\$3,277,052</b></u>

The fair values of certificates of deposit have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The table below presents the transactions measured at fair value on a non-recurring basis at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated services	\$ -	\$2,477,847	\$ -	<u><b>\$2,477,847</b></u>
Pledged contributions - new	<u>-</u>	<u>-</u>	<u>89,950</u>	<u><b>89,950</b></u>
	<u><b>\$ -</b></u>	<u><b>\$2,477,847</b></u>	<u><b>\$89,950</b></u>	<u><b>\$2,567,797</b></u>

continued

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

**13. Fair Value Measurements, continued**

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).

**14. Government Contracts**

Government contracts for the years ended December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Legal Services Corporation	\$ 4,691,409	\$ 4,383,963
Shriver Housing Project – Los Angeles	2,161,661	2,695,228
County of Los Angeles – Self Help Centers	2,161,637	2,328,296
County of Los Angeles – CalWORKs DVSS	894,153	883,784
Equal Access to Justice	660,550	477,020
DMHC Consumer Assistance Program	593,008	610,253
LAC DHS MLS - Whole Person Care	401,424	-
Interest on Lawyers Trust Account	399,690	306,060
LAHSA Homelessness	388,251	-
DMHC CCI	377,234	305,303
LSTF - JAAVA	230,000	6,639
Department of Justice – Violence Against Women Act	216,906	246,018
California Office of Emergency Services – Victims of Crime Act	198,250	3,390
Covered California	177,692	177,691
Equal Access Partnership	240,000	162,000
County of Los Angeles – CSBG BUILD	123,077	137,253
Equal Access Partnership – Shriver SH	103,000	-
LSC – Pro Bono Innovation Fund	81,653	54,368
imPACT-City of LA Reentry	74,658	-
LSC – Disaster Relief	58,714	-
Measure H	57,000	-
Pomona Self-Help Center Access to Justice Intern Project	53,218	59,540
Children’s Outreach Enrollment Utilization and Retention Training Grant	47,037	51,393
El Monte Mobile Home Park	30,300	10,631
LSTF – HOGAR Foreclosure Prevention	27,437	74,563
MHSA Innovation	8,834	-
California Department of Social Services – Unaccompanied Minors	2,000	10,000
	<u>\$14,458,793</u>	<u>\$12,983,393</u>

continued

**NEIGHBORHOOD LEGAL SERVICES  
OF LOS ANGELES COUNTY**

NOTES TO FINANCIAL STATEMENTS

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**15. 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 \$432,172 in 2018 and \$440,759 in 2017.

**16. 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 2018, NLSLA expended \$53,218 in personnel expenses towards the project, and \$239,625 in total. As of December 31, 2018, \$70,375 remains to be spent through August 31, 2019.

**17. 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, 2018 is summarized as follows:

Support:	
LSC basic grant	\$4,691,409
	<u>        x 12.5%</u>
PAI requirement	<u>\$ 586,426</u>
Expenses:	
Personnel salaries:	
Lawyers, paralegals, clerical, and administrative staff	\$ 572,156
Employee benefits	175,537
Office expense	16,996
Occupancy	22,031
Professional fees	12,049
Equipment rental and maintenance	11,165
Telephone	11,491
Travel and training	5,289
Insurance	3,828
Library maintenance	2,532
Delivery	1,444
Litigation	6,756
Meeting and events	918
Dues and subscriptions	<u>85</u>
	<u>\$ 842,277</u>
Net PAI expenses (over) the requirement threshold	<u><u>\$ (255,851)</u></u>

**SUPPLEMENTAL SCHEDULES**

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**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, 2018

	<b>Basic Field Grant</b>	<b>Carryover</b>	<b>LSC Pro Bono Innovative Grant Language Access</b>	<b>LSC Pro Bono Innovative Grant Sustainability</b>	<b>LSC Pro Bono Innovative Grant Antelope Valley</b>	<b>LSC Disaster Relief</b>	<b>Property</b>	<b>Total</b>
<b>Revenue and support</b>								
Government contracts	\$ 4,691,409	\$ -	\$ 54,368	\$ 14,639	\$ 12,646	\$ 58,714	\$ -	\$ 4,831,776
Rental income	34,477							34,477
Attorney fees and costs	5,188							5,188
Income from investments	147,918							147,918
<b>Total revenue and support</b>	<b>4,878,992</b>	<b>-</b>	<b>54,368</b>	<b>14,639</b>	<b>12,646</b>	<b>58,714</b>	<b>-</b>	<b>5,019,359</b>
<b>Expenses</b>								
Salaries and wages	2,664,523		42,011	10,562	6,917	43,219		2,767,232
Payroll taxes and employee benefits	795,342		13,051	3,247	2,083	13,022		826,745
Total personnel costs	3,459,865	-	55,062	13,809	9,000	56,241	-	3,593,977
Professional fees	447,968							447,968
Occupancy	304,707		4		30			304,741
Depreciation							158,597	158,597
Office supplies and expense	143,270		168			699		144,137
Telephone	126,127				11	129		126,267
Equipment rental and maintenance	108,897		18		30	372		109,317
Travel and training	92,207		1,801	830	3,575	1,020		99,433
Special event - Just Neighbors	62,638							62,638
Insurance	50,541							50,541
Capital purchases	8,170						(8,170)	-
Library maintenance	39,246							39,246
Meetings and events	20,893		85			21		20,999
Dues and subscriptions	23,170							23,170
Litigation	43,300							43,300
Miscellaneous	48,791					232		49,023
<b>Total expenses</b>	<b>4,979,790</b>	<b>-</b>	<b>57,138</b>	<b>14,639</b>	<b>12,646</b>	<b>58,714</b>	<b>150,427</b>	<b>5,273,354</b>
<b>Changes in net assets</b>	<b>(100,798)</b>	<b>-</b>	<b>(2,770)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(150,427)</b>	<b>(253,995)</b>
<b>Net assets, beginning of year</b>	<b>443,154</b>	<b>423,948</b>	<b>2,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,483,547</b>	<b>2,353,419</b>
<b>Net assets, end of year</b>	<b>\$ 342,356</b>	<b>\$ 423,948</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,333,120</b>	<b>\$ 2,099,424</b>

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, 2018

	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Foundations</u>	<u>Other</u>	<u>Plant</u>	<u>Total</u>
<b>Revenue and support</b>							
Government contracts (Note 14)	\$ 5,048,683	\$ 5,169,522	\$ 4,240,588	\$ -	\$ -	\$ -	\$ 14,458,793
Donated services (Note 2)					2,477,847		2,477,847
Foundations				1,225,315	7,501		1,232,816
Attorney fees and costs	147,918	6,750			130,788		285,456
Fellowship income					119,988		119,988
Special event					106,085		106,085
Rental income	34,477				29,297		63,774
Income from investments	5,188			940	55,086		61,214
Contributions				18,000	26,523		44,523
Legal services exchanged for reduction of debt						17,881	17,881
<b>Total revenue and support</b>	<u>5,236,266</u>	<u>5,176,272</u>	<u>4,240,588</u>	<u>1,244,255</u>	<u>2,953,115</u>	<u>17,881</u>	<u>18,868,377</u>
<b>Expenses</b>							
Salaries and wages	2,853,347	2,395,088	2,224,755	825,547	85,729		8,384,466
Payroll taxes and employee benefits	853,891	748,716	687,332	257,322	25,365		2,572,626
Total personnel costs	<u>3,707,238</u>	<u>3,143,804</u>	<u>2,912,087</u>	<u>1,082,869</u>	<u>111,094</u>	-	<u>10,957,092</u>
Donated services and goods					2,477,847		2,477,847
Sub-grants	100,684	1,637,159	1,065,248				2,803,091
Professional fees	447,998	51,465	39,062	47,983	720		587,228
Occupancy	304,710	41,041	21,447	10,936	1,718		379,852
Office supplies and expense	144,870	45,651	84,910	17,539	65		293,035
Depreciation						209,208	209,208
Equipment rental and maintenance	109,420	31,456	32,682	16,643	28		190,229
Telephone	127,486	35,727	10,763	21,866			195,842
Travel and training	100,342	22,728	24,157	25,092	836		173,155
Dues and subscriptions	23,170	47,020	57	165	85		70,497
Miscellaneous	49,023	2,045	7,592	3,278	58,248		120,186
Special event - Just Neighbors	62,638						62,638
Insurance	50,541	10,544	3,640	1,281			66,006
Litigation	43,300	22,312	20,574	907	67		87,160
Meetings and events	20,999	775	491	2,297	21,117		45,679
Library maintenance	39,246	2,163		2,252			43,661
Capital purchases	8,168	61,559				(69,727)	-
<b>Total expenses</b>	<u>5,339,833</u>	<u>5,155,449</u>	<u>4,222,710</u>	<u>1,233,108</u>	<u>2,671,825</u>	<u>139,481</u>	<u>18,762,406</u>
<b>Revenue and support over (under) expenses</b>	<u>\$ (103,567)</u>	<u>\$ 20,823</u>	<u>\$ 17,878</u>	<u>\$ 11,147</u>	<u>\$ 281,290</u>	<u>\$ (121,600)</u>	<u>\$ 105,971</u>

See independent auditors' report.