



Certified Public Accountants
and Financial Advisors

**California Rural Legal
Assistance, Inc.**
Financial Statements
December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
California Rural Legal Assistance, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of California Rural Legal Assistance, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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 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. 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 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 California Rural Legal Assistance, Inc. 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.

Adjustments to Prior Period Financial Statements

The financial statements of California Rural Legal Assistance, Inc. as of December 31, 2016, were audited by other auditors whose report dated March 24, 2017, expressed an unmodified opinion on those statements. As discussed in Note 2 to the financial statements, California Rural Legal Assistance, Inc. has restated its 2016 financial statements to correct an error. The other auditors reported on the financial statements before the restatement.

As part of our audit of the 2017 financial statements, we also audited adjustments described in Note 2 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of California Rural Legal Assistance, Inc. other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Revenue, Expenses and Changes in Net Assets for Legal Services Corporation Funds and Schedule of Property and Equipment as required by the LSC Audit Guide for Recipients and the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis 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 a report dated July 17, 2018, except as to Note 3, which is as of September 10, 2018, on our consideration of California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'s internal control over financial reporting and compliance.

SQUAR MILNER LLP

SQUAR MILNER LLP

San Francisco, California

July 17, 2018, except as to Note 3, which is as of September 10, 2018

California Rural Legal Assistance, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,642,607	\$ 1,137,223
Certificates of deposit	749,115	522,366
Grants receivable	402,198	708,623
Pledges receivable	91,960	13,800
Other receivables	47,675	84,228
Prepaid expenses	100,456	254,555
Total current assets	4,034,011	2,720,795
Property and equipment, net	3,019,996	3,104,371
Pledges receivable - long term	5,000	39,130
Client trust funds	204,703	315,834
Deposits	58,011	50,749
Total assets	<u>\$ 7,321,721</u>	<u>\$ 6,230,879</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 283,687	\$ 127,980
Current portion of notes payable	314,580	90,046
Accrued salaries	146,750	144,182
Accrued vacation	366,766	398,196
Other accrued liabilities	121,042	111,567
Deferred rent	26,181	8,817
Total current liabilities	1,259,006	880,788
Client trust funds payable	204,703	315,834
Deferred rent - long term	118,408	144,590
Notes payable	1,200,335	1,510,105
Total liabilities	<u>2,782,452</u>	<u>2,851,317</u>
Net Assets		
Unrestricted		
Available for operations	851,351	1,365,841
Board designated	1,000,000	1,000,000
Total unrestricted	1,851,351	2,365,841
Temporarily restricted	2,687,918	1,013,721
Total net assets	<u>4,539,269</u>	<u>3,379,562</u>
Total liabilities and net assets	<u>\$ 7,321,721</u>	<u>\$ 6,230,879</u>

California Rural Legal Assistance, Inc.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

	2017			2016 (As Restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Grant revenue	\$ 147,144	\$ 11,867,064	\$ 12,014,208	\$ 150,000	\$ 12,478,191	\$ 12,628,191
Contributions	460,895	25,000	485,895	1,405,854	125,350	1,531,204
Attorneys fees and cost recovery	96,009	1,204,302	1,300,311	41,473	475,949	517,422
In-kind contributions	4,560	-	4,560	328,220	-	328,220
Other revenue	149,991	-	149,991	90,038	84,478	174,516
Special event revenue, net of direct expenses of \$22,100 and 251,184, respectively	70,336	-	70,336	70,943	-	70,943
Net assets released from restrictions	11,422,169	(11,422,169)	-	12,629,316	(12,629,316)	-
TOTAL SUPPORT AND REVENUE	<u>12,351,104</u>	<u>1,674,197</u>	<u>14,025,301</u>	<u>14,715,844</u>	<u>534,652</u>	<u>15,250,496</u>
EXPENSES						
Program services	10,978,342	-	10,978,342	10,604,913	-	10,604,913
Management and general	1,337,929	-	1,337,929	2,351,372	-	2,351,372
Fundraising	549,323	-	549,323	620,060	-	620,060
TOTAL EXPENSES	<u>12,865,594</u>	<u>-</u>	<u>12,865,594</u>	<u>13,576,345</u>	<u>-</u>	<u>13,576,345</u>
CHANGE IN NET ASSETS	(514,490)	1,674,197	1,159,707	1,139,499	534,652	1,674,151
NET ASSETS - BEGINNING OF YEAR, AS ORIGINALLY STATED	2,519,248	1,013,721	3,532,969	1,385,019	479,069	1,864,088
Prior period adjustment (Note 2)	(153,407)	-	(153,407)	(158,677)	-	(158,677)
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>2,365,841</u>	<u>1,013,721</u>	<u>3,379,562</u>	<u>1,226,342</u>	<u>479,069</u>	<u>1,705,411</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,851,351</u>	<u>\$ 2,687,918</u>	<u>\$ 4,539,269</u>	<u>\$ 2,365,841</u>	<u>\$ 1,013,721</u>	<u>\$ 3,379,562</u>

California Rural Legal Assistance, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2017 and 2016

	2017				2016 (As Restated)			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 6,639,439	\$ 417,521	\$ 250,269	\$ 7,307,229	\$ 5,440,867	\$ 1,085,320	\$ 315,159	\$ 6,841,346
Payroll taxes and fringe benefits	1,758,347	84,842	72,331	1,915,520	1,544,453	348,563	77,504	1,970,520
Contract services and professional fees	449,359	241,288	116,810	807,457	1,001,310	188,238	110,943	1,300,491
Space and occupancy	782,975	174,927	4,530	962,432	780,341	188,620	4,596	973,557
Travel and training	256,303	138,970	41,541	436,814	293,074	155,214	56,823	505,111
Donated services expense	4,560	-	-	4,560	328,220	-	-	328,220
Telephone	150,549	14,523	2,163	167,235	259,237	55,333	730	315,300
Supplies and materials	213,501	54,493	16,671	284,665	184,794	54,226	42,450	281,470
Library	185,168	2,363	217	187,748	238,240	1,082	976	240,298
Litigation expenses	105,496	-	-	105,496	226,029	-	-	226,029
Depreciation expense	129,667	22,138	6,325	158,130	75,951	73,508	2,927	152,386
Insurance	63,417	22,581	-	85,998	63,701	23,666	-	87,367
Interest	78,977	17,644	457	97,078	84,093	20,327	495	104,915
Miscellaneous	52,124	77,637	36,498	166,259	10,748	69,825	6,742	87,315
Equipment and maintenance	62,541	6,235	906	69,682	52,352	11,166	430	63,948
Audit fees	-	62,767	-	62,767	-	52,000	-	52,000
Memberships	45,919	-	605	46,524	21,503	24,284	285	46,072
	<u>\$ 10,978,342</u>	<u>\$ 1,337,929</u>	<u>\$ 549,323</u>	<u>\$ 12,865,594</u>	<u>\$ 10,604,913</u>	<u>\$ 2,351,372</u>	<u>\$ 620,060</u>	<u>\$ 13,576,345</u>

California Rural Legal Assistance, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,159,707	\$ 1,674,151
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	158,130	152,386
Changes in operating assets and liabilities:		
Grants receivable	306,425	(478,589)
Pledges receivable	(44,030)	31,823
Other receivables	36,553	(23,432)
Prepaid expenses and deposits	146,837	(117,928)
Cash held in trust	111,131	10,340
Accounts payable	155,707	(37,249)
Accrued liabilities	(19,387)	67,701
Deferred rent	(8,818)	(5,270)
Client trust funds payable	(111,131)	(10,340)
Net cash provided by operating activities	1,891,124	1,263,593
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of certificates of deposit	(226,749)	(249,879)
Purchase of equipment	(73,755)	(71,734)
Net cash used in investing activities	(300,504)	(321,613)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(85,236)	(84,588)
Net cash used in financing activities	(85,236)	(84,588)
Increase in cash and cash equivalents	1,505,384	857,392
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,137,223	279,831
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,642,607	\$ 1,137,223
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 97,078	\$ 104,915

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

California Rural Legal Assistance, Inc. (CRLA) is a private nonprofit law firm established in 1966 and provides free legal assistance to rural California's low income population.

CRLA's staff includes attorneys, community workers, paralegals, clerical, and other support staff in its Oakland headquarters, and sixteen offices in various rural locations in the state of California. Each rural office has a professional staff supported by CRLA counsel and administrative staff in Oakland.

Non-management attorneys, community workers, and clerical employees are members of Legal Services Workers of Rural California (LSWRC), National Organization of Legal Services Workers (NOLSW), and United Auto Workers (UAW) Local 2320. In 2014, a three-year Collective Bargaining Agreement (CBA) became effective.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis of Presentation

CRLA reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Description of Net Assets

Unrestricted

Unrestricted net assets include unrestricted resources which represent the portion of expendable funds that are available for the operating objectives of CRLA. Also included are donor-restricted contributions whose restrictions are met in the same accounting period as received.

Temporarily Restricted

Resources restricted by donors or other sources for specific purposes and whose restrictions have not been met are reported as temporarily restricted net assets.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Net Assets (continued)

Permanently Restricted

Donated resources with stipulations that they be used for a specific purpose, be preserved, and not be sold; or be invested to provide a permanent source of income are reported as permanently restricted net assets. CRLA had no permanently restricted net assets at December 31, 2017 and 2016.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CRLA considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit with original maturity dates of less than a year are carried at either market prices based upon a matrix or model pricing method or cost plus accrued interest, which approximates fair value.

Concentration of Credit Risk

Financial instruments that potentially subject CRLA to concentrations of credit risk consist principally of cash, cash equivalents, and certificates of deposit. Risks associated with cash, cash equivalents, and certificates of deposit are mitigated by banking and investing with creditworthy institutions. Such balances, at times, may be in excess of federally insured amounts (currently \$250,000 per depositor). CRLA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Grants and Pledges Receivable

Grants receivable represent balances due from various foundations, governmental and non-governmental agencies and are stated at the amount management expects to collect from outstanding balances. Should it become necessary, management will provide for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts. Balances remaining after management has used reasonable collection efforts would be written off through a charge to bad debt expense. At December 31, 2017 and 2016, CRLA determined that the grants receivable were fully collectible.

CRLA recognizes all unconditional gifts and pledges in the period notified. Pledges receivable are reviewed for collectability, and provisions for uncollectible amounts are established when needed. At December 31, 2017 and 2016, CRLA determined that the pledges were fully collectible.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

CRLA capitalizes property and equipment with a cost or fair value in excess of \$5,000. Property and equipment is carried at cost or, if donated, at the estimated fair value on the date of the gift. Repairs and maintenance are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.

Property and equipment acquired with federal funds or LSC funds are considered to be owned by CRLA 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 sales of these assets.

Client Trust Funds

CRLA 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 CRLA, because CRLA 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 CRLA. These amounts are classified as non-current due to the uncertainty of the timing of payments.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. CRLA determines the fair values of its assets and liabilities based on a three level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

The three levels of the fair value hierarchy are described below:

- *Level 1* inputs to the valuation methodology include unadjusted quoted prices for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

- *Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In-Kind Contributions

CRLA records contributed professional services and materials at their estimated fair value on the date of receipt. Contributed services are recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not received through donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses, or additions to property and equipment.

During the years ended December 31, 2017 and 2016, CRLA received pro bono legal services of \$4,560 and \$328,220, respectively, from volunteers who serve as attorneys and paralegals.

Functional Allocation of Expenses

Functional expenses of CRLA include program and supporting expenses. Expenses directly attributable and identifiable to individual programs or supporting services are charged directly. CRLA allocates expenses that do not directly benefit an activity between program and supporting expenses based on estimates of the relative benefits to each. CRLA bases its estimates primarily on time spent by personnel on various activities. The management of CRLA reviews and adjusts the estimates at least annually.

Income Tax Status

CRLA is recognized as exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 512(a)(1) of the Internal Revenue Code and similar code section of the California Revenue and Taxation Code, is subject to income tax.

Each year management considers whether any material tax positions the CRLA has taken are more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions CRLA has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. DESCRIPTION OF OPERATIONS AND 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. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements were reclassified to conform with the current year presentation.

Recently Issued Accounting Standards

In August 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires expanded presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following assets: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017. CRLA is currently assessing the potential impact of this guidance on its financial statements.

Subsequent Events

Management has evaluated subsequent events through July 17 and September 10, 2018, respectively, the date which the originally issued and reissued financial statements were issued.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

2. PRIOR PERIOD ADJUSTMENT

CRLA has restated its previously issued 2016 financial statements to reflect the correction of errors related to the accounting for its operating leases.

Generally accepted accounting principles in the United States of America require that rent expense be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property. CRLA previously recognized rent expense based on actual payments, rather than on a straight-line basis over the related lease terms.

The effect of the restatement on changes in net assets and financial position as of and for the year ended December 31, 2016 is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Total expenses	\$ 13,581,615	\$ 13,576,345
Change in net assets	\$ 1,668,881	\$ 1,674,151
Deferred rent	\$ -	\$ 153,407
Total liabilities	\$ 2,697,910	\$ 2,851,317
Net assets - beginning of year	\$ 1,864,088	\$ 1,705,411
Net assets - end of year	\$ 3,532,969	\$ 3,379,562

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

3. REVISED FINANCIAL STATEMENTS

CRLA has revised the previously issued 2017 financial statements due to the determination that certain costs could be reallocated among program services and management & general under the terms of the contracts, in order to maximize allowable reimbursements. Total assets, liabilities, net assets, support and revenue, expenses, and change in net assets remained unchanged. The effect of the change in allocation is as follows:

	<u>As Previously Issued</u>	<u>As Revised</u>
Total unrestricted net assets	\$ 1,101,901	\$ 1,851,351
Total temporarily restricted net assets	\$ 3,437,368	\$ 2,687,918
Total support and revenue - unrestricted	\$ 11,601,654	\$ 12,351,104
Total support and revenue - temporarily restricted	\$ 2,423,647	\$ 1,674,197
Total program services expenses	\$ 10,364,343	\$ 10,978,342
Total management and general expenses	\$ 1,951,928	\$ 1,337,929

4. PLEDGES RECEIVABLE

Pledges receivable at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Receivable in one year or less	\$ 91,960	\$ 13,800
Receivable in one to five years	5,000	39,130
	<u>\$ 96,960</u>	<u>\$ 52,930</u>

CRLA did not record the discount on pledges receivable that were due more than one year at December 31, 2017 and 2016 as CRLA believes that the amount is immaterial.

5. FAIR VALUE MEASUREMENTS

CRLA's assets measured at fair value consist of certificates of deposit. At December 31, 2017 and 2016, the certificates of deposit with balance of \$749,115 and \$522,366, respectively, were classified as Level 2.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

6. PROPERTY AND EQUIPMENT

At December 31, 2017 and 2016, property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Building	\$ 2,792,772	\$ 2,792,772
Land	957,990	957,990
Building improvements	1,028,108	987,652
Law library	391,111	391,111
Office equipment	227,551	227,551
Furniture and equipment	90,343	93,713
Leasehold improvements	85,899	52,599
	<u>5,573,774</u>	<u>5,503,388</u>
Less: accumulated depreciation	<u>(2,553,778)</u>	<u>(2,399,017)</u>
	<u>\$ 3,019,996</u>	<u>\$ 3,104,371</u>

For the years ended December 31, 2017 and 2016, depreciation expense was \$158,130 and \$152,386, respectively.

7. NOTES PAYABLE

Notes payable consists of the following:

	<u>2017</u>	<u>2016</u>
Note payable to a bank, secured by a deed of trust. Interest at 5.68% and monthly payments of \$9,285 including principal and interest, due March 2034.	\$ 1,178,924	\$ 1,218,539
Note payable to a nonprofit development corporation, secured by two deeds of trust. Interest at 7.07% plus 0.75% servicing fee and monthly payments of \$4,833 including principal and interest, due May 2018.	261,391	299,218
Note payable to a bank, secured by deed of trust. Interest at 8.25% and monthly payments of \$1,251 including principal and interest, due May 2024.	<u>74,600</u>	<u>82,394</u>
	1,514,915	1,600,151
Less: current portion	<u>(314,580)</u>	<u>(90,046)</u>
	<u>\$ 1,200,335</u>	<u>\$ 1,510,105</u>

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

7. NOTES PAYABLE (continued)

Annual maturities of the notes payable are as follows:

<u>Year ending December 31,</u>	
2018	\$ 314,580
2019	58,182
2020	61,848
2021	65,751
2022	69,907
Thereafter	944,647
	<u>\$ 1,514,915</u>

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2017 and 2016 were restricted for the following time and purpose restrictions:

	<u>2017</u>	<u>2016</u>
LSC - Basic, Migrant and Attorney Fees	\$ 1,668,275	\$ 218,608
Foundations and Non-Government	583,394	344,565
Other Government	151,579	-
Grant receivable - Time Restricted	150,000	300,000
LSC - Property Purchased	134,670	150,548
	<u>\$ 2,687,918</u>	<u>\$ 1,013,721</u>

For the years ended December 31, 2017 and 2016, temporarily restricted net assets were released from donor/grantor restrictions by incurring expenses satisfying the purpose or time restriction specified by donors/grantors as follows:

	<u>2017</u>	<u>2016</u>
LSC - Basic, Migrant and Attorney Fees	\$ 7,385,935	\$ 8,199,584
State Bar of California - Equal Access Fund	1,349,310	1,107,860
Foundations and Non-Government	883,353	1,784,548
Other Government	771,933	412,888
Grant receivable - Time Restricted	150,000	150,000
LSC - Property Purchased	15,878	11,016
State Bar of California - IOLTA	865,760	963,420
	<u>\$ 11,422,169</u>	<u>\$ 12,629,316</u>

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

9. OPERATING LEASES

CRLA leases various office facilities under various non-cancelable operating lease arrangements in Coachella, Delano, Fresno, Modesto, San Luis Obispo, Santa Barbara, Santa Maria, Santa Rosa, Stockton, and Vista, California expiring through March 2026. CRLA also leases equipment with various non-cancelable operating lease arrangements expiring through June 2021.

CRLA also receives rental revenue under various operating leases on a month to month basis.

Future minimum lease payments under these arrangements at December 31, 2017 are as follows:

<u>Year ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 486,300	\$ 60,800	\$ 547,100
2019	458,400	60,800	519,200
2020	329,100	44,000	373,100
2021	281,500	1,800	283,300
2022	266,400	-	266,400
Thereafter	518,700	-	518,700
	<u>\$ 2,340,400</u>	<u>\$ 167,400</u>	<u>\$ 2,507,800</u>

For the years ended December 31, 2017 and 2016, office rent expense was \$479,411 and \$535,668, and equipment rent expense was \$61,212 and \$52,152, respectively.

10. EMPLOYEE BENEFIT PLAN

CRLA has a 401(k) defined contribution profit sharing plan. Eligible employees who are at least age 18 and are not covered under a collective bargaining agreement may defer up to the lesser of 75% of their salary or the limit under the Internal Revenue Code (IRC). CRLA matches 100% of those employee deferrals, up to a maximum of \$2,760 based on their years of services and salaries. Employees eligible for the match contributions vest immediately in the match. CRLA contributed \$96,270 and \$105,512, respectively, to the plan for the years ended December 31, 2017 and 2016.

Effective January 1, 2006, CRLA established an individually designated retirement plan under IRC 403(b) available to all highly compensated employees within the meaning of IRS 414(q). Eligible participants may contribute an amount equal to the amount of compensation reduced pursuant to the participant's election not to be exceed the limit under IRC. CRLA is not required to make any contributions to this plan.

California Rural Legal Assistance, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

11. PRIVATE ATTORNEY INVOLVEMENT

CRLA is required by Legal Services Corporation (LSC) to devote at least 12.5% of the LSC's basic grant to promote private attorney involvement (PAI). CRLA's PAI requirement and the related expenses during the year ended December 31, 2017 are summarized below:

Support	
LSC Basic Grant	\$ 5,009,272
LSC rate	<u>12.50%</u>
PAI required threshold	<u>\$ 626,159</u>
Expenses	
Salaries and wages	
Lawyers	\$ 375,179
Clerical and others	159,504
Community workers	17,760
Space and occupancy	117,073
Payroll taxes and benefits	111,355
Supplies and materials	28,998
Other expenses	27,666
Library maintenance	25,150
Telephone	20,448
Training	18,849
Litigation expense	15,178
Insurance	8,613
Audit fees	8,525
Equipment rent and related	<u>8,495</u>
Total Expenses	<u>\$ 942,793</u>
 Total PAI expenses over (under) the requirement threshold	 <u>\$ 316,634</u>

SUPPLEMENTAL INFORMATION

California Rural Legal Assistance, Inc.
SCHEDULE OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET
ASSETS FOR LEGAL SERVICES CORPORATION FUNDS
For the Year Ended December 31, 2017

	<u>Basic</u>	<u>Migrant</u>	<u>Rural Summer Legal Corp</u>	<u>Total</u>	<u>Property</u>	<u>Total</u>
Revenue and support						
Grant revenue	\$ 5,009,272	\$ 2,612,028	\$ 10,000	\$ 7,631,300	\$ -	\$ 7,631,300
Attorney fees and costs recovery	794,839	409,463	-	1,204,302	-	1,204,302
Total revenue and support	<u>5,804,111</u>	<u>3,021,491</u>	<u>10,000</u>	<u>8,835,602</u>	<u>-</u>	<u>8,835,602</u>
Expenses:						
Salaries and wages	3,122,212	1,608,412	-	4,730,624	-	4,730,624
Employee benefits	578,506	298,018	-	876,524	-	876,524
Payroll taxes	270,229	139,209	-	409,438	-	409,438
Total personnel costs	<u>3,970,947</u>	<u>2,045,639</u>	<u>-</u>	<u>6,016,586</u>	<u>-</u>	<u>6,016,586</u>
Space and occupancy	329,385	169,682	-	499,067	-	499,067
Professional fees	131,281	67,630	10,000	208,911	-	208,911
Travel	88,984	45,840	-	134,824	-	134,824
Supplies and materials	81,587	42,030	-	123,617	-	123,617
Library	70,760	36,452	-	107,212	-	107,212
Miscellaneous	62,944	32,426	-	95,370	-	95,370
Telecommunications	57,531	29,637	-	87,168	-	87,168
Insurance	24,234	12,484	-	36,718	-	36,718
Equipment rent and related	23,900	12,312	-	36,212	-	36,212
Memberships	17,606	9,070	-	26,676	-	26,676
Training	8,959	4,615	-	13,574	-	13,574
Depreciation expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,878</u>	<u>15,878</u>
Total expenses	<u>4,868,118</u>	<u>2,507,817</u>	<u>10,000</u>	<u>7,385,935</u>	<u>15,878</u>	<u>7,401,813</u>
Change in net assets	935,993	513,674	-	1,449,667	(15,878)	1,433,789
Net assets, beginning of year	<u>-</u>	<u>218,608</u>	<u>-</u>	<u>218,608</u>	<u>150,548</u>	<u>369,156</u>
Net assets, end of year	<u>\$ 935,993</u>	<u>\$ 732,282</u>	<u>\$ -</u>	<u>\$ 1,668,275</u>	<u>\$ 134,670</u>	<u>\$ 1,802,945</u>

California Rural Legal Assistance, Inc.
SCHEDULE OF PROPERTY AND EQUIPMENT
December 31, 2017

	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Building	\$ 2,242,873	\$ 549,899	\$ 2,792,772
Land	791,250	166,740	957,990
Building improvements	793,285	234,823	1,028,108
Law library	-	391,111	391,111
Office equipment	52,299	175,252	227,551
Furniture and equipment	3,414	86,929	90,343
Leasehold improvements	50,650	35,249	85,899
	<u>3,933,771</u>	<u>1,640,003</u>	<u>5,573,774</u>
Less: accumulated depreciation	<u>(1,130,840)</u>	<u>(1,422,938)</u>	<u>(2,553,778)</u>
	<u>\$ 2,802,931</u>	<u>\$ 217,065</u>	<u>\$ 3,019,996</u>

California Rural Legal Assistance, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Pass-through Entity Identifying Number</u>	<u>Award Identifier Number</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
Legal Services Corporation:				
Direct Legal Services for Low Income - Basic	N/A	805260	09.80526	\$ 4,868,117
Direct Legal Services for Low Income - Migrant	N/A	805260	09.80526	2,507,818
Direct Rural Summer Program	N/A	805260	09.80526	<u>10,000</u>
Total Legal Services Corporation				7,385,935
U.S. Department of Labor:				
Direct Harwood Training Grant - Heat Stress Prevention	N/A	SH276921560F6	17.502	<u>112,862</u>
Total Department of Labor				112,862
U.S. Department of Housing and Urban Development:				
Direct Fair Housing Enforcement Program	N/A	FH700G15028	14.408	70,000
Direct Fair Housing Enforcement Program	N/A	FPEI161014-01-00	14.408	225,000
Direct Education and Outreach Program	N/A	FEOI160051-01-01	14.416	<u>125,000</u>
Total Department of Housing and Urban Development				420,000
U.S. Department of Justice:				
Victims of Crime Act	2016-VA-GX-0057 & 2017-VA-GX-0084	KL17011211	16.575	<u>57,143</u>
Total Department of Justice				57,143
Total Expenditures of Federal Awards				<u>\$ 7,975,940</u>

California Rural Legal Assistance, Inc.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of California Rural Legal Assistance, Inc. (CRLA) under the programs of the federal government for the year ended December 31, 2017. 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). Because the Schedule presents only a selected portion of the operations of California Rural Legal Assistance, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of California Rural Legal Assistance, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

CRLA did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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 of
California Rural Legal Assistance, Inc.

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 California Rural Legal Assistance, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 17, 2018, except as to Note 3, which is as of September 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of California Rural Legal Assistance, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as *Item 2017-001* that we consider to be material weaknesses.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether California Rural Legal Assistance, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

California Rural Legal Assistance Inc.'s Response to Findings

California Rural Legal Assistance Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. California Rural Legal Assistance Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

SQUAR MILNER LLP

A handwritten signature in black ink that reads "SQUAR MILNER LLP". The signature is written in a cursive, flowing style.

San Francisco, California

July 17, 2018, except as to Note 3, which is as of September 10, 2018.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
California Rural Legal Assistance, Inc.

Report on Compliance for Each Major Federal Program

We have audited California Rural Legal Assistance, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *LSC Audit Guide* and the *Compliance Supplement For Audits of LSC Recipients* that could have a direct and material effect on each of California Rural Legal Assistance, Inc.'s major federal programs for the year ended December 31, 2017. California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'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; 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), the *LSC Audit Guide* and the *Compliance Supplement For Audits of LSC Recipients*. 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 major federal program occurred. An audit includes examining, on a test basis, evidence about California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, California Rural Legal Assistance, Inc. 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 California Rural Legal Assistance, Inc. 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, we considered California Rural Legal Assistance, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in 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 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 California Rural Legal Assistance, Inc.'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as *Item 2017-002* that we consider to be material weaknesses.

California Rural Legal Assistance, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. California Rural Legal Assistance, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance and the LSC Audit Guide. Accordingly, this report is not suitable for any other purpose.

SQUAR MILNER LLP

A handwritten signature in black ink that reads "SQUAR MILNER LLP". The letters are cursive and somewhat stylized, with the "S" and "M" being particularly large and prominent.

San Francisco, California

July 17, 2018, except as to Note 3, which is as of September 10, 2018.

California Rural Legal Assistance, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of California Rural Legal Assistance, Inc. (CRLA) were prepared in accordance with GAAP.
2. Material weaknesses on internal control over financial reporting are identified.
3. No instances of noncompliance material to the financial statements of California Rural Legal Assistance, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. Material weaknesses on internal control over major programs are identified.
5. The auditor's report on compliance for the major federal award programs for California Rural Legal Assistance, Inc. expresses an unmodified opinion on all major federal programs.
6. There was an audit finding that is required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as major programs were:

<u>CFDA Number</u>	09.80526
<u>Name of Federal Program</u>	Direct Legal Services for Low Income

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. California Rural Legal Assistance, Inc. did not qualify as a low-risk auditee.

FINANCIAL STATEMENT FINDINGS

2017-001 – Account Reconciliations:

Criteria: All material account balances should be reconciled in a timely manner.

Condition: During the audit, we noted that certain accounts, including grants receivable, notes payable, fixed assets, deferred revenue, and deferred rent were not reconciled on a monthly basis nor adjusted to the correct balances at year end.

Context: Below is a summary of what we identified:

- 1) Grants receivable – grant revenues billed for allowable expenditures incurred during the last quarter of 2017 were not recorded.
- 2) Notes payable – all principal payments made in 2017 were not applied to the notes payable balances.
- 3) Fixed assets – all current year’s additions were not recorded in the fixed assets accounts and no depreciation was computed and recorded.
- 4) Deferred rent – rent expense was not recorded on a straight-line basis in accordance with generally accepted accounting principles in the United States.
- 5) Deferred revenue – payments previously recorded under deferred revenue were not recognized when revenue recognition criteria were met.

Effect: The following material misstatements were identified:

- 1) Grants receivable were understated by approximately \$57,000.
- 2) Notes payable were overstated by approximately \$85,000.
- 3) Fixed assets were overstated by approximately \$84,000.
- 4) Deferred rent in the amount of approximately \$145,000 at December 31, 2017 was not recorded. Further, a prior period adjustment in the amount of approximately \$153,000 was applied to the net assets at January 1, 2017.
- 5) Deferred revenue was overstated by approximately \$105K.

Cause: These reconciliations were previously performed by the Controller who left CRLA in 2017, and during the transition, these accounts were not reviewed or reconciled.

Recommendation: CRLA should adopt a policy requiring monthly reconciliation of all balance sheet accounts by personnel with adequate accounting experience and knowledge to ensure the accuracy of the monthly financial statements. Balance sheet reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

Views of Responsible Officials and Planned Correction Action: In 2018, balance sheet accounts will be reconciled by the CFO on a more frequent basis, quarterly at minimum. By January 2019 CRLA will adopt a policy requiring monthly reconciliations of balance sheet accounts, and restructure our accounting team duties to allow for this regular activity to occur on a monthly schedule.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL AWARD

2017-002 – Allocation of personnel and non-personnel costs:

Criteria: Allocation of personnel and non-personnel costs among programs, including the major federal program, and between program and supporting activities should be performed monthly and in a timely manner.

Condition: During the audit, we noted that personnel and non-personnel costs were not allocated timely among programs, including the major federal program. Further, personnel and non-personnel costs were also not allocated timely between program and supporting activities.

Context: Personnel and non-personnel costs should be allocated timely among programs, including major federal programs, and between program and supporting activities in accordance with the policies and procedures as established by CRLA. Unused funds, if any, should be returned.

Effect: Due to the lack of timely cost allocations, programs with over or under expenditures were not identified in a timely manner. Late reallocation of eligible costs to programs, including the major federal program, was performed as a result. Further, unused funds of approximately \$89,000 for a non-federal grant were identified.

Cause: Allocations of personnel and non-personnel costs was previously performed by the Controller who left CRLA in 2017, and during the transition, the allocation was not performed in a timely manner.

Recommendation: CRLA should adopt a policy requiring allocation of personnel and non-personnel costs on a monthly basis to ensure that the resources are allocated to various programs in accordance with the budgeted amounts as approved by the grantors.

Views of Responsible Officials and Planned Correction Action: In 2018, allocation of personnel and non-personnel costs to programs will be performed by the Finance Manager and reviewed by the CFO on a more frequent basis, quarterly at minimum. By January 2019 CRLA will adopt a policy requiring monthly allocations of personnel and non-personnel costs to programs, and restructure our accounting team duties to allow for this regular activity to occur on a monthly schedule.