

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**

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*(A NON-PROFIT CORPORATION)*

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

**TOGETHER WITH**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANT**

**Ferguson & Company**  
CERTIFIED PUBLIC ACCOUNTANT  
1734 MARTIN LUTHER KING JR. WAY  
OAKLAND, CA 94612  
(510) 835-1512

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
**(A NON-PROFIT CORPORATION)**  
**DECEMBER 31, 2014**

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**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
**(A NON-PROFIT CORPORATION)**  
**DECEMBER 31, 2014**

**GENERAL INFORMATION**

**1. Full Official Name of the Agency:**

LEGAL AID SOCIETY OF SANTA CLARA COUNTY

**2. Type of Agency**

Non Profit Corporation

**3. Address of Agency Headquarters**

480 North First Street  
San Jose, CA 95112

**4. Name of Chief Executive Officers**

Antonio Estremera, Directing Attorney  
Dean Iranpour, Chief Financial Officer

**5. Telephone Number**

408-283-3782

**6. Period Covered by Examination**

January 1, 2014 through December 31, 2014

## **GENERAL INFORMATION**

**INDEPENDENT AUDITOR'S REPORT**

1734 MARTIN LUTHER KING JR. WAY  
OAKLAND, CA 94612  
(510) 835-1512  
FAX (510) 835-5606

**Ferguson & Company**  
*Certified Public Accountant*

Board of Directors  
**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
San Jose, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of **LEGAL AID SOCIETY OF SANTA CLARA COUNTY** which comprise the statement of financial position as of **December 31, 2014**, and the related statements of activities and changes in net assets, 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 the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

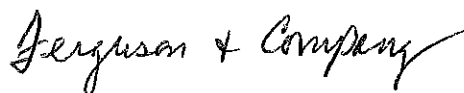
An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depends on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 evaluation 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 **LEGAL AID SOCIETY OF SANTA CLARA COUNTY** on **December 31, 2014**, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Ferguson & Company, CPA**  
**March 5, 2015**



**FINANCIAL STATEMENTS**



**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**

**ASSETS**

**CURRENT ASSETS**

Cash	\$398,233
Accounts Receivable (Note 1)	<u>50,917</u>
<b>Total Current Assets</b>	<b><u>449,150</u></b>

**NONCURRENT ASSETS**

Prepaid Expenses	37,077
Marketable Securities (Note 1)	<u>3,662</u>
<b>Total Noncurrent Assets</b>	<b><u>40,739</u></b>

**FIXED ASSETS**

Land (Notes 1 & 5)	404,086
Building and Equipment, Net (Notes 1 & 5)	<u>476,811</u>
<b>Total Fixed Assets</b>	<b><u>880,897</u></b>

<b>TOTAL ASSETS</b>	<b><u><u>\$1,370,786</u></u></b>
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**LIABILITIES AND NET DEFICIT**

**CURRENT LIABILITIES**

Accounts Payable	\$9,165
Accrued Salaries & Payroll Taxes	17,815
Accrued Vacation (Note 1)	92,204
Mortgage Payable, Current Portion (Note 6)	50,680
Rent Deposits	<u>6,622</u>
<b>Total Current Liabilities</b>	<b><u>176,486</u></b>

**LONG TERM LIABILITIES**

Mortgage Payable, Less Current Portion (Note 6)	<u>1,378,527</u>
<b>Total Long-Term Liabilities</b>	<b><u>1,378,527</u></b>

<b>Total Liabilities</b>	<b><u>1,555,013</u></b>
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**NET DEFICIT**

Unrestricted	<u>(184,227)</u>
<b>Total Net Assets</b>	<b><u>(184,227)</u></b>

<b>TOTAL LIABILITIES &amp; NET DEFICIT</b>	<b><u><u>\$1,370,786</u></u></b>
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See accompanying notes and accountants' report.

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**REVENUE**

**Contracts and Grants**

Contra Costa County Contract	\$3,112,091
Community Development Block Grant	120,401
Creative Solutions	<u>160,500</u>
<b>Total Contracts and Grants</b>	<b><u>3,392,992</u></b>

**Other Revenue**

Rental Revenue (Note 12)	41,014
Case Service Fees	5,708
Court Referred Fees	1,282
Interest	<u>116</u>
<b>Total Other Revenue</b>	<b><u>48,120</u></b>

**TOTAL REVENUE** **3,441,112**

**EXPENSES**

Program Services	
Contra Costa Program	2,827,455
Community Development Block Grant	316,845
Creative Solutions	116,928
Immigration	70,831
Supportive Services	
General and Administrative	<u>166,833</u>
<b>Total Expenses</b>	<b><u>3,498,892</u></b>

**DECREASE IN UNRESTRICTED NET ASSETS** **(57,780)**

**NET ASSETS AT BEGINNING OF YEAR** **(126,447)**

**NET ASSETS AT END OF YEAR** **(\$184,227)**

**See accompanying notes and accountants' report.**

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	Contra Costa	CDBG Fair Housing	Immigration	Creative Solutions	Total Program	Administrative and General	Total
<b>EXPENSES</b>							
Salaries and Wages	\$994,271	\$175,582	\$38,987	\$60,593	\$1,269,434	\$94,396	\$1,363,830
Benefits	239,209	40,673	9,379	19,527	308,788	19,330	328,118
Payroll Taxes	<u>75,521</u>	<u>13,337</u>	<u>2,961</u>	<u>4,602</u>	<u>96,421</u>	<u>7,170</u>	<u>103,591</u>
<b>Total Salaries and Related Expenses</b>	<b>1,309,001</b>	<b>229,592</b>	<b>51,327</b>	<b>84,722</b>	<b>1,674,643</b>	<b>120,896</b>	<b>1,795,539</b>
Contract Services	1,090,713	11,300	2,526	4,171	1,108,710	5,949	1,114,659
Occupancy	207,562	36,404	8,138	13,438	265,542	19,167	284,709
Equipment	44,188	7,750	1,733	2,861	56,532	4,080	60,612
Office Expenses	31,312	5,492	1,228	2,027	40,059	2,891	42,950
Telephone	21,357	3,746	837	1,383	27,323	1,972	29,295
Travel & Training	13,352	2,342	524	864	17,082	1,233	18,315
Publications	7,153	1,255	280	463	9,151	661	9,812
Insurance	20,822	3,652	816	1,348	26,638	1,923	28,561
Audit	16,921	2,968	663	1,095	21,647	1,563	23,210
Dues & Fees	4,704	825	184	305	6,018	434	6,452
Client Services	7,605	1,334	298	492	9,729	702	10,431
Fund Raising	<u>1,565</u>	<u>274</u>	<u>61</u>	<u>101</u>	<u>2,001</u>	<u>144</u>	<u>2,145</u>
<b>Total Non-Personnel Expenses</b>	<b>1,467,254</b>	<b>77,342</b>	<b>17,288</b>	<b>28,548</b>	<b>1,590,432</b>	<b>40,719</b>	<b>1,631,151</b>
Depreciation	<u>51,199</u>	<u>9,911</u>	<u>2,216</u>	<u>3,658</u>	<u>66,984</u>	<u>5,218</u>	<u>72,202</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b><u>\$2,827,454</u></b>	<b><u>\$316,845</u></b>	<b><u>\$70,831</u></b>	<b><u>\$116,928</u></b>	<b><u>\$3,332,059</u></b>	<b><u>\$166,833</u></b>	<b><u>\$3,498,892</u></b>

See accompanying notes and accountants' report.

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b><u>Cash Flows From Operating Activities:</u></b>	
Change in Net Assets	(\$57,780)
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	72,202
<b>Changes in Assets and Liabilities:</b>	
Decrease In Contract Receivables	10,499
Increase In Prepaid Expenses	(8,439)
Increase In Rent Deposits	3,609
Decrease In Accounts Payable	(1,651)
Decrease In Accrued Salaries, Vacation & Payroll Expenses	<u>(44,569.00)</u>
<b>Total Adjustments</b>	<b><u>31,651</u></b>
<b>Net Cash Provided By Operating Activities</b>	<b><u>(26,129)</u></b>
<b><u>Cash Flows From Investing Activities:</u></b>	
Payments on Long-Term Borrowings	(47,974)
Fixed Asset Additions	<u>(17,731.00)</u>
<b>Net Cash Used By Financing Activities</b>	<b><u>(65,705)</u></b>
<b>Decrease in Cash</b>	<b>(91,834)</b>
<b>CASH, Beginning of Year</b>	<b><u>490,067</u></b>
<b>CASH, End of Year</b>	<b><u><u>\$398,233</u></u></b>

**Additional Disclosure:**

*Interest paid during the year was \$80,048.*

**See accompanying notes and accountants' report.**

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
*(A Non-Profit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

The **LEGAL AID SOCIETY OF SANTA CLARA COUNTY (the Organization)** is a nonprofit organization, founded in 1960 and incorporated in the State of California. The Organization provides free civil legal services to low income people in the community, who are unable to obtain access to the judicial system through other avenues. The Organization provides access to the justice system, outreach and educational programs to provide tools to have individuals advocate for themselves, to promote independence, self-sufficiency and knowledge. The Organization also provides legal services for the Contra Costa Dependency Program – these services commenced in July 2007.

The Organization receives direct public support from individuals, the United Way, and federal funds in the form of a community Development Block Grant through the City of San Jose and contract with Contra Costa County Superior Court. In addition, other contracted funds are administered through various departments of the County of Santa Clara.

**B. Basis of Accounting**

The Organization's records are maintained on the accrual basis of accounting.

**C. Promises To Give**

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporary or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Based upon prior year's experience and management's analysis, no allowance for uncollectible unconditional promises is considered necessary.

**D. Contributed Services**

During the year ended **December 31, 2014** the organization received no contributed services meeting the requirements for recognition in the financial statements.

**E. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**F. Financial Statement Presentation**

The Organization follows Statement of Financial Accounting standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
*(A Non-Profit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**Unrestricted Net Assets**, which includes resources not subject to donor imposed restrictions.

**Temporarily restricted net assets**, which includes resources subject to donor-imposed stipulations that may or will be met either by actions of the organization and/or the passage of time.

**Permanently restricted net assets**, which includes grants gifts and bequests accepted with the stipulation that the principal or fixed asset item be restricted in perpetuity. The organization had no permanently restricted assets as of December 31, 2014.

**G. Contributions**

The Organization also follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

**H. Cash & Cash Equivalents**

Cash & Cash Equivalents includes deposits held in bank checking and money market accounts.

**I. Accounts & Grants Receivable**

Accounts receivable from program service contracts are reported at the amount management expects to collect on balances outstanding at year- end. Management has deemed that all amounts are fully collectible within one year. As such, there is no allowance for doubtful accounts.

**J. Client Trust Account**

All funds received or held for the benefit of clients by a member of the law firm, including advances or costs and expenses, are deposited in one or more identifiable bank accounts labeled "Client Trust Account". A contingency liability account is established until the purpose has been accomplished. Amounts available after all disbursements have been made are recognized as income in the period earned. For the year ended **December 31, 2014**, the Organization did not have any transactions that met the criteria.

**K. Deferred Financing Costs**

Costs relating to obtaining the mortgage debt are capitalized and amortized over the term of the related debt utilizing the straight-line method. Accumulated amortization at **December 31, 2014** was **\$11,455**. When the loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

**J. Marketable Securities**

Marketable securities represent donated securities and are recorded at market value at the date of donation. There has been no income or activity in this account since donation.

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
*(A Non-Profit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**L. Property, Building and Equipment**

Property, building and equipment that have a historical cost of approximately \$500 or more and have reasonably determinable useful lives are capitalized. Property, building and equipment are recorded at cost and depreciated by the straight-line method over their estimated useful lives, 5 to 30 years. Assets received as donations are recorded at their fair market value when received.

Depreciation expense is proportionally allocated to the individual programs and support functions based on the percentage of program or support function expenses relative to total expenses.

Assets held under capital leases are recorded at the lower of net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

**M. Accumulated Vacation and Sick Leave**

Accumulated unpaid employee vacations are recognized as liabilities of the Organization. Sick leave benefits are accumulated for each employee; however, the employees do not have a vested right to sick leave. Sick leave benefits are not recognized as liabilities of the Organization since payment of such benefits is not determinable. Accordingly, sick leave benefits are recorded as an expense in the period sick leave is taken.

**NOTE 2 - CONTINGENCIES**

The Organization has received funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any disallowances will not be material.

**NOTE 3 - INCOME TAXES**

No provision has been made for income taxes in the financial statements. The Organization is exempt from Federal and State income taxes under the Internal Revenue Code Section 501(c) (3) and Section 23701 (d) under the Internal Revenue Code and California Taxation Code, respectively. This code section enables the Organization to accept donations which qualify as charitable contributions to the donor. The Organization has been classified as a publicly supported organization, which is not a private foundation. The organization's Federal Return of organization Exempt From Income Tax (Form 990) for the tax years ending in 2012, 2013, and 2014 are subject to examination by the internal Revenue Service, generally for three years after they were filed.

**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
*(A Non-Profit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 4 – CONCENTRATION OF CREDIT RISK**

The Organization receives in excess of **91 percent** of its **total revenue** from one contract with a government agency. The organization maintains its financial instruments with what management believes to be high credit quality financial institutions and does not limit the amount of credit exposure to any one particular institution. Cash, cash equivalents in excess of federal deposit insurance (**FDIC**) coverage limits as of **December 31, 2014** totaled approximately **\$152,000**.

**NOTE 5 – LAND, PROPERTY, BUILDING AND EQUIPMENT**

Land, Property, Building and Equipment at **December 31, 2014** consisted of the following:

Land	\$404,086
Building	1,527,035
Leasehold Improvements	452,288
Computers	405,003
Equipment	98,670
Furniture & Equipment	<u>48,511</u>
<b>Total</b>	<b>2,935,593</b>
<b>Less: Accum. Depreciation</b>	<b><u>(2,054,697)</u></b>
<b>Net Book Value</b>	<b><u>\$880,897</u></b>

**NOTE 6 – MORTGAGE PAYABLE**

A ten year real estate loan was secured by the Organization on February 1, 2012 with a local bank at a fixed rate of **5.50%** to refinance an existing loan. Payments of **\$10,668** are made monthly and include principal and interest. Final payment of all remaining unpaid principal, interest and other sums is due and payable on **January 1, 2022**. The mortgage is secured by the land and building. Total mortgage payments for the year ended **December 31, 2014** were **\$128,022** of which **\$80,048** was interest. Minimum mortgage payments for the next five years are:

<u>PERIOD ENDED</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
12/31/2015	\$50,680	\$77,341	\$128,021
12/31/2016	53,539	74,482	128,021
12/31/2017	56,559	71,462	128,021
12/31/2018	59,749	68,272	128,021
12/31/2019	63,119	64,902	128,021
Beyond 2019	<u>1,145,560</u>	<u>223,638</u>	<u>1,369,198</u>
<b>TOTAL</b>	<b><u>\$1,429,206</u></b>	<b><u>\$580,097</u></b>	<b><u>\$2,009,303</u></b>



**LEGAL AID SOCIETY OF SANTA CLARA COUNTY**  
*(A Non-Profit Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**NOTE 7 – LEASE COMMITMENTS**

The Organization is party to one lease as follows:

A six year operating lease for office space in Contra Costa County beginning **January 1, 2013** and ending **December 31, 2015**. The monthly rental payment is **\$7,627**.

Minimum annual payments for the lease is:

<u>YEAR ENDED</u>	<u>AMOUNT</u>
<b>December 31, 2015</b>	<b><u>\$92,524</u></b>

**NOTE 8 – RETIREMENT PLAN**

The Organization maintains a defined contribution retirement plan for the benefit of its regular employees. Contributions are included in employee benefit costs and are determined at 2% of compensation. The Organization contributes an additional 2% for each employee that actually contributes to the plan. The Organization increased its contribution from 1% to 2% effective **June 29, 2007**, as stated in the revised Collective Bargaining Agreement. The Organization administers the plan. Employees are fully vested from date of employment, attainment of early retirement age, permanent disability or death. The plan is funded through the purchase of various annuity contracts. For the year ended **December 31, 2014**, the Organization contributed **\$45,379**.

**NOTE 9 – COLLECTIVE BARGAINING AGREEMENT**

The Organization has **66%** of its regular employees subject to a Collective Bargaining Agreement.

**NOTE 10 – MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through **March 5, 2015**, the date the financial statements were available to be issued.

**NOTE 11 – CONTRACT INCOME**

The Organization receives grant and contract income from governmental and private sources. In the year ended **December 31, 2014** contract income received was **\$3.1million**.

**NOTE 12 – RENTAL REVENUE**

The Organization receives rental income from lessees for the rent of office space. Rental revenue for the year ended **December 31, 2014** was **\$41,014**.