

COMMUNITY LEGAL SERVICES

**AUDITED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
A-133 SINGLE AUDIT REPORTS AND SCHEDULES
Years ended December 31, 2010 and 2009**

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TABLE OF CONTENTS

AUDITED FINANCIAL STATEMENTS

Independent auditors' report.....	1
Statements of financial position	2
Statements of activities	3
Statement of functional expenses – 2010	4
Statement of functional expenses – 2009	5
Statements of cash flows	6
Notes to financial statements	7

SUPPLEMENTARY INFORMATION

Summary of program activity	13
Summary of Legal Services Corporation activity	14
Summary of United Way activity	15
Summary of Community Partnership and Innovative Practices activity	16
Summary of other activity	17
Compliance report on Private Attorney Involvement Program	18
Summary of Private Attorney Involvement Program activity	19

A-133 SINGLE AUDIT REPORTS AND SCHEDULES

Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	20
Independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.....	22
Schedule of findings and questioned costs and summary of auditors' results.....	24
Schedule of expenditures of federal and other governmental awards	25
Notes to schedule of expenditures of federal and other governmental awards	26

INFORMATION PREPARED BY AUDITEE

Summary of prior year findings.....	27
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Legal Services
Phoenix, Arizona

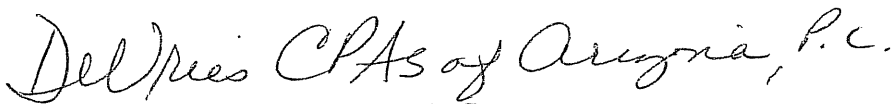
We have audited the accompanying statements of financial position of Community Legal Services (an Arizona nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Community Legal Services' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Legal Services as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011 on our consideration of Community Legal Services' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Community Legal Services taken as a whole. The accompanying supplementary information on pages 13 through 19 and the accompanying schedule of expenditures of federal and other governmental awards are presented for purposes of additional analysis or as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


DEVRIES CPAS OF ARIZONA, P.C.

April 19, 2011

Integrity is the highest form of service.

COMMUNITY LEGAL SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 461,204	\$ 280,038
Certificate of deposit held at bank - Note 9	103,686	102,655
Investments - Notes 3 and 16	1,911	1,509
Client trust funds - Note 4	33,031	25,031
Grants and allocations receivable - Note 6	327,115	340,521
Other receivables	1,531	3,611
Prepaid expenses and other current assets	50,678	52,439
Total current assets	979,156	805,804
Employee receivables - Note 5	13,077	29,647
Property and equipment - Notes 7, 9 and 10	775,560	800,523
	\$ 1,767,793	\$ 1,635,974
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 78,790	\$ 71,063
Accrued expenses	65,940	87,127
Accrued payroll	66,622	49,410
Accrued vacation	22,445	28,169
Client trust deposits - Note 4	33,031	25,031
Total current liabilities	266,828	260,800
Note payable - Note 8	0	150,000
Mortgage note payable - Note 10	500,000	500,000
	766,828	910,800
Net assets:		
Unrestricted (deficit):		
LSC - operations	243,144	352,903
LSC - property and equipment	252,042	260,783
Non - LSC - operations	363,670	(57,902)
Non - LSC - property and equipment	23,518	39,740
	882,374	595,524
Temporarily restricted - Note 11	118,591	129,650
	1,000,965	725,174
	\$ 1,767,793	\$ 1,635,974

See Accompanying Notes.

COMMUNITY LEGAL SERVICES
STATEMENTS OF ACTIVITIES
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Revenue and support:		
Legal Services Corporation	\$ 4,655,999	\$ 4,312,154
Contributions	302,564	334,536
United Way	117,662	135,585
Other government contracts	778,481	649,296
Grants and other awards	205,500	471,044
Investment income - Note 3	4,505	5,538
Other revenue	5,186	1,950
Forgiveness of accrued interest - Note 8	0	12,375
Attorney fees	1,350	0
	<u>6,071,247</u>	<u>5,922,478</u>
Net assets released from restriction	142,248	182,146
Total revenue and support	<u>6,213,495</u>	<u>6,104,624</u>
Expenses:		
Program services	4,922,673	4,747,696
Management and general	837,951	797,144
Fundraising	166,021	114,258
Total expenses	<u>5,926,645</u>	<u>5,659,098</u>
Change in unrestricted net assets	286,850	445,526
Temporarily restricted net assets:		
United Way	111,729	129,650
Grants and other awards	19,460	0
Net assets released from restriction	<u>(142,248)</u>	<u>(182,146)</u>
Change in temporarily restricted net assets	<u>(11,059)</u>	<u>(52,496)</u>
Net change in net assets	275,791	393,030
Net assets at beginning of year	<u>725,174</u>	<u>332,144</u>
Net assets at end of year	<u>\$ 1,000,965</u>	<u>\$ 725,174</u>

See Accompanying Notes.

COMMUNITY LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2010

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:				
Attorneys	\$ 1,533,844	\$ 125,462		\$ 1,659,306
Non-attorneys	1,409,893	267,888	\$ 107,160	1,784,941
Employee benefits	<u>1,009,757</u>	<u>124,877</u>	<u>32,514</u>	<u>1,167,148</u>
Total personnel costs	3,953,494	518,227	139,674	4,611,395
Contract services	52,060	107,290		159,350
Travel	21,934	3,516	1,123	26,573
Occupancy	328,675	63,612	558	392,845
Office expense	67,291	16,534	5,614	89,439
Audit expense	4,375	12,818		17,193
Insurance expense	13,350	1,259	343	14,952
Telephone	92,781	11,300	2,127	106,208
Equipment rental	109,353	23,343	14,576	147,272
Training	94,535	17,898	130	112,563
Library	51,374	1,415	156	52,945
Client litigation	87,246			87,246
Professional dues	17,315	12,795		30,110
Depreciation	24,963			24,963
Property expense	274	31,535		31,809
Other	3,653	16,409	1,720	21,782
	<u>\$ 4,922,673</u>	<u>\$ 837,951</u>	<u>\$ 166,021</u>	<u>\$ 5,926,645</u>

See Accompanying Notes.

COMMUNITY LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2009

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Personnel:				
Attorneys	\$ 1,512,404	\$ 123,061		\$ 1,635,465
Non-attorneys	1,343,161	256,346	\$ 70,848	1,670,355
Employee benefits	955,319	121,004	18,115	1,094,438
Total personnel costs	<u>3,810,884</u>	<u>500,411</u>	<u>88,963</u>	<u>4,400,258</u>
Contract services	36,342	123,296		159,638
Travel	26,498	1,301	782	28,581
Occupancy	309,017	58,096		367,113
Office expense	55,894	30,995	2,613	89,502
Audit expense	5,985	11,580		17,565
Insurance expense	16,858	610	46	17,514
Telephone	88,382	7,961	1,124	97,467
Equipment rental	88,623	22,403	20,577	131,603
Training	63,831	18,592	63	82,486
Library	44,626			44,626
Client litigation	129,631			129,631
Professional dues	26,981	127		27,108
Depreciation	24,743			24,743
Property expense	185	10,545		10,730
Bad debt	11,825			11,825
Interest	2,016			2,016
Other	5,375	11,227	90	16,692
	<u>\$ 4,747,696</u>	<u>\$ 797,144</u>	<u>\$ 114,258</u>	<u>\$ 5,659,098</u>

See Accompanying Notes.

COMMUNITY LEGAL SERVICES
STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net change in net assets	\$ 275,791	\$ 393,030
Adjustments to reconcile change in net assets to net cash from operating activities:		
Donated stock	0	(1,423)
Unrealized gain	(402)	(86)
Depreciation	24,963	24,743
Grants of debt forgiveness	(150,000)	0
(Increase) decrease in operating assets:		
Grants and allocations receivable	13,406	33,952
Other receivables	2,080	15,977
Prepaid expenses and other current assets	1,761	(13,593)
Employee receivables	16,570	(8,893)
Increase (decrease) in operating liabilities:		
Bank overdrafts	0	(79,892)
Accounts payable	7,727	(10,240)
Accrued expenses	(21,187)	27,320
Accrued payroll	17,212	11,647
Accrued vacation	(5,724)	1,735
Accrued interest	0	(12,375)
Net cash provided by operating activities	<u>182,197</u>	<u>381,902</u>
 Cash flows from investing activities:		
Purchases of equipment	0	(8,891)
Reinvestment of earnings on certificate of deposit	(1,031)	(2,655)
Net cash (used in) investing activities	<u>(1,031)</u>	<u>(11,546)</u>
 Cash flows (used in) financing activities -		
Payments on line of credit	<u>0</u>	<u>(100,000)</u>
 Net change in cash and cash equivalents	181,166	270,356
 Cash and cash equivalents at beginning of year	<u>280,038</u>	<u>9,682</u>
 Cash and cash equivalents at end of year	<u>\$ 461,204</u>	<u>\$ 280,038</u>
 <u>Supplemental cash flow information:</u>		
Cash paid for interest	<u>\$ 0</u>	<u>\$ 2,016</u>
No cash paid for income taxes in 2010 or 2009.		

See Accompanying Notes.

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 - Nature of operations

Community Legal Services (CLS) is a nonprofit corporation organized for the purpose of eliminating poverty-based inequities in the civil justice system by providing high-quality legal advice, advocacy and assistance. These services are provided to residents of La Paz, Maricopa, Mohave, Yavapai, and Yuma counties, and Native Americans who live off the reservations in Maricopa County and migrant farm workers who live or work in the state of Arizona.

NOTE 2 - Summary of significant accounting policies

Financial statement presentation

CLS is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Use of estimates

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

Cash and cash equivalents

CLS considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. CLS maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At December 31, 2010, CLS had no uninsured cash balances.

Certificates of deposit held at banks

Certificates of deposit held at banks bear interest at 0.85% and have a maturity of 12 months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Property and equipment

Property and equipment acquired with LSC and other government funds is considered to be owned by CLS. However, the property may have to be returned to the grantor should these programs be terminated at some future date. In accordance with LSC Regulations, CLS capitalizes property and equipment purchases in excess of \$1,000. Depreciation of property is computed on a straight-line basis over the estimated service lives of the assets.

CLS capitalized the original historical costs of books, reference materials, and multiple-volume sets of law books. During the year ended December 31, 2010, CLS estimated that the salvage value of its original law library was \$64,781, as much of CLS' library now primarily consists of electronic subscriptions to on-line services. In accordance with LSC guidelines, the costs of maintaining the library are expensed.

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2010 and 2009

NOTE 2 - Summary of significant accounting policies – continued

Accrued vacation

Vacation pay is accrued as a liability when earned by the employees since the employees receive a vested right to this employee benefit.

Recognition of donor restrictions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the expiration expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grant/contract support

CLS is funded principally by the Legal Services Corporation (LSC) and through various grants, cost reimbursement contracts and contributions. CLS recognizes grant contract funds from LSC over the grant contract period as related costs are incurred. Unexpended funds for use in future periods are reported as unearned contract revenues. LSC may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by CLS with the terms of the grant contract. In addition, if CLS terminates its legal assistance activities, all unused funds are to be returned to LSC. When the organization receives a grant for a specific project, the funds received are accounted for as unrestricted and expenditures incurred are charged against the grant. Under the terms of the LSC grant, CLS is permitted to carry over no more than 10% of their annualized LSC support. A waiver of this policy up to a maximum of 25% of the recipient's annualized grant amount may be obtained under certain conditions. At December 31, 2010, CLS was in compliance with this policy.

Donated space and services

Donated space is valued at fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although CLS utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Allocation of costs

Expenses of CLS are charged primarily to the LSC grant. However, to the extent other grants and contracts provide for the allocation of such expenses, they are allocated to them in the following manner, to the extent of available support:

- | | | |
|----------------------|---|---|
| Direct expenditure | - | directly to the grant or contract. |
| Payroll fringe costs | - | allocated in the relationship the grant's or contract's direct payroll bears to the total direct payroll. |
| Other costs | - | allocated in the relationship the grant's or contract's revenue bears to the total revenue of all grants and contracts. |

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2010 and 2009

NOTE 2 - Summary of significant accounting policies – continued

Private attorney involvement requirement

CLS is required, under the terms of its LSC grant, to spend at least an amount equal to 12-1/2% of its annualized LSC basic funding for private attorney involvement. See Note 13.

Income tax status

CLS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to CLS' tax-exempt purpose may be subject to taxation as unrelated business income. In addition, CLS qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 740-10 (ASC 740-10), CLS holds no uncertain tax positions and, therefore, has no policy for evaluating them. CLS' Forms 990, *Return of Organization Exempt from Income Taxes*, and Arizona Forms 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the IRS and the Arizona Department of Revenue, respectively, for four years after the date filed.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3 – Investments

Investments in the amount of \$1,911 and \$1,509 at December 31, 2010 and 2009, respectively, consisted of publicly traded securities. At December 31, 2010 and 2009, investment income consisted of the following:

	2010	2009
Interest and dividends	\$ 4,103	\$ 5,452
Unrealized gains	402	86
	\$ 4,505	\$ 5,538

NOTE 4 – Client trust funds

The Arizona State Bar Association requires a separate trust account for clients' payments of fees or court awarded settlements. These amounts are not available for general operating purposes. These funds are reflected on the statements of financial position as part of current assets and current liabilities. Client trust funds were \$33,031 and \$25,031 at December 31, 2010 and 2009, respectively.

NOTE 5 – Employee receivables

CLS has an Employee Loan Assistance Program (ELAP) for qualifying attorneys. Attorneys are reimbursed for their student loan payments by CLS. CLS records the reimbursements as receivables and one-half of the receivables are forgiven beginning one year after disbursement and fully forgiven two years after disbursement as long as the attorney continues employment with CLS. All loans under this program are interest-free during the employee's continued employment. ELAP receivables were \$13,077 and \$29,647 at December 31, 2010 and 2009, respectively.

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2010 and 2009

NOTE 6 – Grants and allocations receivable

Grants and allocations receivable at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Arizona Foundation for Legal Services & Education	\$ 58,003	\$ 64,394
Arizona Department of Housing	0	9,500
Arizona Equal Justice Foundation	0	14,410
City of Chandler	4,216	3,547
City of Glendale	32,646	30,247
City of Mesa	63,948	34,832
City of Yuma	5,347	3,750
Internal Revenue Service	33,342	15,436
Maricopa County Bar Foundation	0	14,321
Maricopa County Department of Public Health	11,044	9,384
United Way	117,593	140,700
Other	976	0
	<u>\$ 327,115</u>	<u>\$ 340,521</u>

NOTE 7 – Property and equipment

Property and equipment at December 31, 2010 and 2009 are summarized as follows:

	2010			2009
	LSC	Non LSC	Total	Total
Land	\$ 99,167	\$ 198,333	\$ 297,500	\$ 297,500
Building - Note 10	150,833	635,474	786,307	786,307
Furniture, fixtures and equipment	135,701	55,616	191,317	191,317
	<u>385,701</u>	<u>889,423</u>	<u>1,275,124</u>	<u>1,275,124</u>
Less accumulated depreciation:				
Building	(72,784)	(310,289)	(383,073)	(362,911)
Furniture, fixtures and equipment	(125,656)	(55,616)	(181,272)	(176,471)
Law library	64,781		64,781	64,781
	<u>\$ 252,042</u>	<u>\$ 523,518</u>	<u>\$ 775,560</u>	<u>\$ 800,523</u>

NOTE 8 – Note payable

The unsecured note payable of \$0 and \$150,000 at December 31, 2010 and 2009 represents a loan received from the Arizona Foundation for Legal Services and Education (AFLSE) Capital Loan Repayment Program for capital improvements. The terms of the loan state that the capital improvements must be completed by December 31, 2009. Payments on the loan are due starting March 31, 2010 and each month thereafter for a total of twelve equal monthly payments of \$12,500. Interest on the unpaid principal balance accrues at the rate of one percent above the short-term applicable federal rate (3.25% at December 31, 2010). If CLS does not default on the loan agreement and remains a 501(c)(3) entity until the loan is repaid in full, the Foundation will forgive the accrued interest on the entire amount of the loan. The accrued interest on the note was recorded as forgiven as of December 31, 2010. During December 31, 2010 an agreement was signed between CLS and the AFLSE in which AFLSE agreed to convert the entire \$150,000 note payable balance to a grant.

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2010 and 2009

NOTE 9 – Line of credit

CLS has a \$250,000 secured line of credit payable to a bank with monthly interest payments at prime plus 0.50% per annum (3.75% at both December 31, 2010 and 2009). No balance was outstanding at December 31, 2010 or 2009. Bank advances on the credit line are payable on demand. The line of credit was secured by CLS' certificate of deposit and property and equipment. The credit line matured in December 2010 and was renewed through December 2011. Total interest paid on the line of credit during the years ended December 31, 2010 and 2009 was \$0 and \$2,016, respectively.

NOTE 10 – Mortgage payable

The mortgage payable of \$500,000 represents Community Development Block Grant funds received from the City of Phoenix to help purchase the building the Agency currently occupies. The terms of the loan state that if the property is sold, the entire \$500,000 must be returned to the City of Phoenix. CLS has signed a promissory note in favor of the City that is collateralized by a mortgage on the building. There is no interest and no payments are due in connection with the loan. The mortgage has no stated maturity date.

NOTE 11 – Temporarily restricted net assets

Temporarily restricted net asset activity for the year ended December 31, 2010 was as follows:

	Beginning balance	Additions	Releases	Ending balance
United Way - timing	\$ 129,650	\$ 111,729	\$ (129,650)	\$ 111,729
Family Lawyer's Assistance Project	0	19,460	(12,598)	6,862
	\$ 129,650	\$ 131,189	\$ (142,248)	\$ 118,591

NOTE 12 – Operating leases

CLS leases certain office space and equipment under noncancelable operating leases. Following is a summary of future minimum lease payments:

Year ending December 31, 2011	\$ 235,943
2012	139,385
2013	71,238
2014	42,953
	\$ 489,519

Total rental expense for all operating leases was \$248,679 and \$220,149 for 2010 and 2009, respectively.

NOTE 13 – Private attorney involvement program

For the years ended December 31, 2010 and 2009 expenses relating to private attorney involvement totaled \$594,123 and \$547,274, respectively, or an amount equal to 13.25% and 13.13% of the LSC basic grant award. The value of any donated legal services for this program have not been recorded because they do not meet the criteria set forth in Note 2.

COMMUNITY LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2010 and 2009

NOTE 14 – Retirement plan

CLS has two 403(b) thrift plans that cover substantially all full-time regular non-union and attorney positions. Participants may contribute to the plan through salary reduction. CLS contributed an amount equal to 4% of the employee's annual salary for non-union positions for the years ended December 31, 2010 and 2009, respectively. CLS also has a 401(k) plan developed for members of United Food and Commercial Workers Union, Local 99 (UFCWU), to which it contributed amounts equal to 3% of the employee's annual salary and a match up to 3% of the annual salary for the years ended December 31, 2010 and 2009, respectively. Retirement expense for the years ended December 31, 2010 and 2009 was \$147,300 and \$153,269, respectively.

NOTE 15 – Current vulnerability due to concentrations of revenue

Approximately 75% and 70% of CLS' revenues were received from LSC for the years ended December 31, 2010 and 2009, respectively. The operations of CLS are subject to administrative directives and rules and regulations of LSC and other federal, state and local regulatory agencies. Such directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by LSC. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with the change.

NOTE 16 – Fair value measurements

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. The fair value hierarchy that distinguishes between market participant assumptions and CLS' own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are CLS' own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of CLS' publicly traded securities are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. CLS does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. CLS does not utilize Level 3 inputs.

Fair values of Level 1 assets measured on a recurring basis at December 31, 2010 and 2009 consisted of publicly traded securities valued at \$1,911 and \$1,509, respectively.

NOTE 17 – Subsequent events

Subsequent events have been evaluated through April 19, 2011, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

COMMUNITY LEGAL SERVICES
SUMMARY OF PROGRAM ACTIVITY
Year ended December 31, 2010

	Legal Services Corporation	United Way	CPIP	Other	Property, plant & equipment	Totals
Revenue and support:						
Legal Services Corporation	\$ 4,655,999					\$ 4,655,999
Contributions	12,794			\$ 289,770		302,564
United Way		\$ 229,391				229,391
Other government contracts	183,313		\$ 369,452	225,716		778,481
Grants and other awards			19,460	205,500		224,960
Investment income	3,239			1,266		4,505
Other revenue	4,161			1,025		5,186
Attorney fees	1,350					1,350
	<u>4,860,856</u>	<u>229,391</u>	<u>388,912</u>	<u>723,277</u>		<u>6,202,436</u>
Expenses:						
Salaries	2,763,314	33,667	245,235	402,031		3,444,247
Employee related expenses	940,380	10,469	88,042	128,257		1,167,148
Contract services	119,846		22,609	16,895		159,350
Travel	23,165		721	2,687		26,573
Occupancy	378,519			14,326		392,845
Office expense	77,457	329	8,613	3,040		89,439
Audit expense	12,818	3,148	1,017	210		17,193
Insurance expense	6,072		6,774	2,106		14,952
Telephone	98,275		713	7,220		106,208
Equipment rental	144,083			3,189		147,272
Training	74,306	27,150	6,120	4,987		112,563
Library	51,669			1,276		52,945
Client litigation	69,158		871	17,217		87,246
Professional dues	10,245	17,985		1,880		30,110
Depreciation					\$ 24,963	24,963
Property expense	31,809					31,809
Other	12,380		1,335	8,067		21,782
	<u>4,813,496</u>	<u>92,748</u>	<u>382,050</u>	<u>613,388</u>	<u>24,963</u>	<u>5,926,645</u>
Net change in net assets	47,360	136,643	6,862	109,889	(24,963)	275,791
Net assets (deficit) at beginning of year	352,903	269,571	0	(197,823)	300,523	725,174
Transfer of net assets	<u>(157,119)</u>			<u>157,119</u>		<u>0</u>
Net assets at end of year	<u>\$ 243,144</u>	<u>\$ 406,214</u>	<u>\$ 6,862</u>	<u>\$ 69,185</u>	<u>\$ 275,560</u>	<u>\$ 1,000,965</u>

COMMUNITY LEGAL SERVICES
SUMMARY OF LEGAL SERVICES CORPORATION ACTIVITY
Year ended December 31, 2010

	<u>Basic field grant</u>	<u>Migrant worker grant</u>	<u>Total</u>
Revenue and support:			
Legal Services Corporation	\$ 4,485,069	\$ 170,930	\$ 4,655,999
Contributions	12,794		12,794
Other government contracts	183,313		183,313
Investment income	3,239		3,239
Other revenue	4,161		4,161
Attorney fees	1,350		1,350
	<u>4,689,926</u>	<u>170,930</u>	<u>4,860,856</u>
Expenses:			
Salaries	2,555,355	207,959	2,763,314
Employee related expenses	860,988	79,392	940,380
Contract services	119,846		119,846
Travel	21,853	1,312	23,165
Occupancy	346,436	32,083	378,519
Office expense	74,852	2,605	77,457
Audit expense	12,818		12,818
Insurance expense	5,621	451	6,072
Telephone	87,786	10,489	98,275
Equipment rental	127,257	16,826	144,083
Training	65,083	9,223	74,306
Library	51,031	638	51,669
Client litigation	60,700	8,458	69,158
Professional dues	9,625	620	10,245
Property expense	31,535	274	31,809
Other	12,380		12,380
	<u>4,443,166</u>	<u>370,330</u>	<u>4,813,496</u>
Net change in net assets	246,760	(199,400)	47,360
Net assets at beginning of year	352,903	0	352,903
Transfer of net assets	<u>(356,519)</u>	<u>199,400</u>	<u>(157,119)</u>
Net assets at end of year	<u>\$ 243,144</u>	<u>\$ 0</u>	<u>\$ 243,144</u>

COMMUNITY LEGAL SERVICES
SUMMARY OF UNITED WAY ACTIVITY
Year ended December 31, 2010

	<u>Valley of the Sun</u>	<u>Mesa</u>	<u>Yuma</u>	<u>Mohave</u>	<u>Total</u>
Revenue:					
United Way	\$ 205,806	\$ 19,008		\$ 4,577	\$ 229,391
Expenses:					
Salaries		23,690	\$ 3,663	6,314	33,667
Employee related expenses		7,467	1,332	1,670	10,469
Office expense	329				329
Audit expense	3,148				3,148
Training	27,150				27,150
Professional dues	17,985				17,985
	<u>48,612</u>	<u>31,157</u>	<u>4,995</u>	<u>7,984</u>	<u>92,748</u>
Net change in net assets	157,194	(12,149)	(4,995)	(3,407)	136,643
Net assets at beginning of year	<u>227,527</u>	<u>27,924</u>	<u>8,331</u>	<u>5,789</u>	<u>269,571</u>
Net assets at end of year	<u>\$ 384,721</u>	<u>\$ 15,775</u>	<u>\$ 3,336</u>	<u>\$ 2,382</u>	<u>\$ 406,214</u>

COMMUNITY LEGAL SERVICES
SUMMARY OF COMMUNITY PARTNERSHIP AND INNOVATIVE PRACTICES ACTIVITY
Year ended December 31, 2010

	<u>Yuma</u>	<u>Central Phoenix</u>	<u>Yavapai</u>	<u>Mohave</u>	<u>Eastside</u>	<u>Volunteer Lawyers Program</u>	<u>Total</u>
Revenue:							
Other government contracts	\$ 31,899	\$ 85,101	\$ 23,497	\$ 27,647	\$ 35,692	\$ 165,616	\$ 369,452
Grants and other awards						19,460	19,460
	<u>31,899</u>	<u>85,101</u>	<u>23,497</u>	<u>27,647</u>	<u>35,692</u>	<u>185,076</u>	<u>388,912</u>
Expenses:							
Salaries	21,711	62,576	13,796	17,331	28,486	101,335	245,235
Employee related expenses	6,759	16,808	5,379	4,848	7,206	47,042	88,042
Contract services						22,609	22,609
Travel						721	721
Office expense	1,206	2,111	2,444	1,525		1,327	8,613
Audit expense						1,017	1,017
Insurance expense	499	3,445	630	1,426		774	6,774
Telephone						713	713
Training	1,653		1,248	1,461		1,758	6,120
Client litigation		161		580		130	871
Other	71			476		788	1,335
	<u>31,899</u>	<u>85,101</u>	<u>23,497</u>	<u>27,647</u>	<u>35,692</u>	<u>178,214</u>	<u>382,050</u>
Net change in net assets	0	0	0	0	0	6,862	6,862
Net assets at beginning of year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net assets at end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,862</u>	<u>\$ 6,862</u>

COMMUNITY LEGAL SERVICES
SUMMARY OF OTHER ACTIVITY
Year ended December 31, 2010

	General unrestricted	Interest on Lawyers' Trust Accounts	Disability Advocacy Project	Mediation Program	HIV-Aids	Children's Legal Project	Low Income Taxpayer Clinic	Maricopa County Bar Foundation	National Foreclosure Mortgage Counseling	Maricopa County HPRRP	Total
Revenue and support:											
Contributions	\$ 279,165				\$ 10,075	\$ 530					\$ 289,770
Other government contracts					58,790		\$ 76,341		\$ 64,114	\$ 26,471	225,716
Grants and other awards		\$ 175,500				10,000		\$ 20,000			205,500
Investment income	1,266										1,266
Other revenue	1,025										1,025
	<u>281,456</u>	<u>175,500</u>			<u>68,865</u>	<u>10,530</u>	<u>76,341</u>	<u>20,000</u>	<u>64,114</u>	<u>26,471</u>	<u>723,277</u>
Expenses:											
Salaries		85,091	\$ 39,512		45,435	48,681	92,080	13,881	57,894	19,457	402,031
Employee related expenses		18,083	9,564		20,462	16,961	47,193	4,100	4,880	7,014	128,257
Contract services				\$ 5,055		11,840					16,895
Travel		235	283		420	8	363	1,213	165		2,687
Occupancy		2,295			2,289	2,289	7,453				14,326
Office expense		647	109	138			1,152	168	826		3,040
Audit expense							210				210
Insurance expense		212	201		201	201	948		343		2,106
Telephone		1,105	632	978	73	704	3,728				7,220
Equipment rental		320	78				2,791				3,189
Training		5	592			55	3,697	638			4,987
Library		135	1,141								1,276
Client litigation		15,337				227	1,653				17,217
Professional dues		315	315			460	790				1,880
Other	7,991						47		29		8,067
	<u>7,991</u>	<u>123,780</u>	<u>52,427</u>	<u>6,171</u>	<u>68,880</u>	<u>81,426</u>	<u>162,105</u>	<u>20,000</u>	<u>64,137</u>	<u>26,471</u>	<u>613,388</u>
Net change in net assets	<u>273,465</u>	<u>51,720</u>	<u>(52,427)</u>	<u>(6,171)</u>	<u>(15)</u>	<u>(70,896)</u>	<u>(85,764)</u>	<u>0</u>	<u>(23)</u>	<u>0</u>	<u>109,889</u>
Net assets (deficit) at beginning of year	(197,823)	0	0	0	0	0	0	0	0	0	(197,823)
Transfer of net assets	<u>(6,457)</u>	<u>(51,720)</u>	<u>52,427</u>	<u>6,171</u>	<u>15</u>	<u>70,896</u>	<u>85,764</u>		<u>23</u>		<u>157,119</u>
Net assets at end of year	<u>\$ 69,185</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,185</u>

**COMPLIANCE REPORT ON PRIVATE
ATTORNEY INVOLVEMENT PROGRAM**

Board of Directors
Community Legal Services
Phoenix, AZ

We have audited the financial statements of Community Legal Services as of December 31, 2010 and have issued our report thereon dated April 19, 2011. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures we considered necessary in the circumstances.

In the course of our audit, we tested the allocation of costs to the Private Attorney Involvement Program for the year ended December 31, 2010. A summary of these costs, which total \$594,123 (excluding the value of donated services), is included as supplementary information in the 2010 audited financial statements on page 19.

In our opinion, Community Legal Services has complied during the year ended December 31, 2010, with the LSC regulations relating to the allocation of costs to the Private Attorney Involvement Program.



DEVRIES CPAS OF ARIZONA, P.C.

April 19, 2011

COMMUNITY LEGAL SERVICES
SUMMARY OF PRIVATE ATTORNEY INVOLVEMENT
PROGRAM ACTIVITY
Year ended December 31, 2010

Revenue:	
LSC basic field grant	\$ 574,521
Grants and other awards	<u>19,602</u>
Total support	594,123
Expenses:	
Personnel:	
Attorneys	108,885
Non-attorneys	266,020
Employee benefits	<u>123,261</u>
Total personnel	498,166
Contract services	3,722
Occupancy	41,933
Office expenses	5,711
Travel	3,921
Other	<u>40,670</u>
	<u>594,123</u>
Excess of revenue over expenses	<u><u>\$ 0</u></u>

A-133 SINGLE AUDIT REPORTS AND SCHEDULES

**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***

Board of Directors
Community Legal Services
Phoenix, Arizona

We have audited the financial statements of Community Legal Services (a nonprofit organization) as of and for the year ended December 31, 2010 and have issued our report thereon dated April 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Legal Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Legal Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Legal Services' internal control over financial reporting.

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 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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we noted other matters related to internal control over financial reporting which we have reported to management and those charged with governance of Community Legal Services in a separate letter dated April 19, 2011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Legal Services' 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 that are required to be reported under *Government Auditing Standards*.

-20-

Integrity is the highest form of service.

Board of Directors
Community Legal Services
Page two

This report is intended solely for the information and use of the Board of Directors, Audit and Budget Committee, management, others within the Organization, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Devries CPAs of Arizona, P.C.".

DEVRIES CPAS OF ARIZONA, P.C.

April 19, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Community Legal Services
Phoenix, Arizona

Compliance

We have audited Community Legal Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Legal Services' major federal programs for the year ended December 31, 2010. Community Legal Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Legal Services' management. Our responsibility is to express an opinion on Community Legal Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Legal Services' 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. Our audit does not provide a legal determination of Community Legal Services' compliance with those requirements.

In our opinion, Community Legal Services complied, in all material respects, with the 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, 2010. We also noted certain immaterial instances of noncompliance, which we have reported to management and those charged with governance of Community Legal Services in a separate letter dated April 19, 2011.

Internal Control Over Compliance

Management of Community Legal Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Legal Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Community Legal Services' internal control over compliance.

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

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

This report is intended solely for the information and use of the Board of Directors, Audit and Budget Committee, management, others within the Organization, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Devries CPAs of Arizona, P.C.

DEVRIES CPAS OF ARIZONA, P.C.

April 19, 2011

COMMUNITY LEGAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2010

FINDING/NONCOMPLIANCE

None

SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
No material weaknesses identified.
No significant deficiencies identified.

No noncompliance material to financial statements noted.

Federal awards

Internal control over major programs:
No material weaknesses identified.
No significant deficiencies identified.

Type of auditors' report issued on compliance for major programs: Unqualified

No audit findings disclosed as required to be reported
in accordance with Circular A-133, Section .510(a).

Identification of major programs:
09.703030 Legal Services Corporation - Basic Field Grant
09.703030 Legal Services Corporation - Migrant Worker Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

LSC regulations state that the auditee does not qualify as a low risk auditee.

COMMUNITY LEGAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
Year ended December 31, 2010

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>	
			<u>Federal</u>	<u>Other</u>
<u>Legal Services Corporation</u>				
<i>Direct programs:</i>				
Basic Field Grant	09.703030	N/A	\$ 4,485,069 *	\$ 0
Migrant Worker Grant	09.703030	N/A	170,930 *	0
 <u>Department of Housing and Urban Development</u>				
<i>Passed through City of Chandler:</i>				
Community Development Block Grants/Entitlement Grants	14.218	N/A	7,500	0
<i>Passed through City of Glendale:</i>				
Community Development Block Grants/Entitlement Grants	14.218	C-6630	15,000	0
Community Development Block Grants/Entitlement Grants	14.218	C-7497	17,646	0
<i>Passed through City of Mesa:</i>				
Community Development Block Grants/Entitlement Grants	14.218	2111-4021-09	22,906	0
Community Development Block Grants/Entitlement Grants	14.218	2111-4040-09	4,567	0
Community Development Block Grants/Entitlement Grants	14.218	2111-4059-10	20,246	0
Community Development Block Grants/Entitlement Grants	14.218	2111-4060-10	43,702	0
<i>Passed through City of Yuma:</i>				
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-04-0508	7,525	0
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-04-0508	9,097	0
<i>Passed through Maricopa County Human Services:</i>				
ARRA - Homeless Prevention - Stimulus	14.257	C-22-10-022-3-00	26,471	0
 <u>Department of the Treasury</u>				
<i>Direct program:</i>				
Low Income Taxpayer Clinics	21.008	LITC10	76,341	0
<i>Passed through Arizona Department of Housing:</i>				
ARRA - Housing Tax Credit (HTC) Exchange Program	21.000	313-09	64,114	0
 <u>Department of Health and Human Services</u>				
<i>Passed through Arizona Foundation For Legal Services & Education:</i>				
Temporary Assistance for Needy Families (Note 2)	93.558	DES-070502001	369,452	0
<i>Passed through Maricopa County Department of Public Health:</i>				
HIV Emergency Relief Project Grants	93.914	A-2009-LS-CLS-003	8,197	0
HIV Emergency Relief Project Grants	93.914	A-2010-LS-CLS-003	50,593	0
 <u>Other governmental awards</u>				
City of Peoria	n/a	n/a	0	10,000
City of Tempe	n/a	n/a	0	7,424
City of Scottsdale	n/a	2009-101-COS	0	7,500
City of Scottsdale	n/a	2010-128-COS	0	7,500
City of Yuma	n/a	n/a	0	2,700
TOTAL FEDERAL AND OTHER GOVERNMENTAL AWARDS			\$ 5,399,356	\$ 35,124

* Major program expenditures = \$4,655,999

COMMUNITY LEGAL SERVICES
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
Year ended December 31, 2010

NOTE 1: Basis of accounting

The schedule of expenditures of federal and other governmental awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - Federal vs non federal contracts

The pass-through entity is unable to identify the federal portion of the contract; therefore, 100% of the amount expended during the year ended December 31, 2010 has been reported as federal expenditures.

NOTE 3: Total federal expenditures by CFDA #:

<u>CFDA#</u>	<u>Total expenditures</u>
09.703030	\$ 4,655,999
14.218	148,189
14.257	26,471
21.000	64,114
21.008	76,341
93.558	369,452
93.914	58,790
	<u>\$ 5,399,356</u>

INFORMATION PREPARED BY AUDITEE

COMMUNITY LEGAL SERVICES
SUMMARY OF PRIOR YEAR FINDINGS
Year ended December 31, 2010

FINDING/NONCOMPLIANCE

None