Harrington Group

Certified Public Accountants, LLP

BAY AREA LEGAL AID

FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES, and ADDITIONAL INFORMATION

DECEMBER 31, 2014 and 2013

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Harrington Group

Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Bay Area Legal Aid

Report on the Financial Statements

We have audited the accompanying financial statements of Bay Area Legal Aid (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2014 and 2013, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Legal Aid as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Private Attorney Involvement (PAI) Compliance, Schedule of Support, Revenue, Expenses, and Changes in Net Assets of Legal Services Corporation ("LSC") Funds, Schedule of Expenditures of State Awards, and the Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis as required by the LSC Audit Guide for Recipients, and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, respectively, 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 our report dated March 26, 2015 on our consideration of Bay Area Legal Aid's internal control over financial reporting and our tests of their 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay Area Legal Aid's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
March 26, 2015

BAY AREA LEGAL AID

STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
Assets		
Cash	$ 1,389,167	$ 920,490
Cash held in trust	77,348	55,755
Grants receivable	999,379	907,751
Pledges receivable (Note 3)	366,116	334,749
Other receivable	-	128
Prepaid expenses	44,821	100,888
Other assets	72,369	79,369
Investments (Note 4)	1,479,455	2,246,583
Property and equipment (Note 5)	6,318,585	6,323,735
Total assets	$ 10,747,240	$ 10,969,448
Liabilities and net assets		
Liabilities		
Accounts payable	$ 135,503	$ 119,588
Accrued liabilities (Note 6)	752,594	660,161
Deferred revenue	324,839	303,152
Notes payable (Note 7)	4,043,340	4,162,729
Total liabilities	5,256,276	5,245,630
Net assets		
Unrestricted	3,183,645	3,545,421
Unrestricted - property and equipment (Note 2)	2,251,521	2,128,324
Temporarily restricted (Note 9)	55,798	50,073
Total net assets	5,490,964	5,723,818
Total liabilities and net assets	$ 10,747,240	$ 10,969,448

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

BAY AREA LEGAL AID

STATEMENTS OF ACTIVITIES
For the years ended December 31, 2014 and 2013

	December 31, 2014			December 31, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Government contracts (Note 10)	$ 4,080,902	$ 4,136,683	**$ 8,217,585**	$ 3,636,078	$ 3,940,572	$ 7,576,650
Donated services (Note 11)	3,701,291		**3,701,291**	3,577,664		3,577,664
Contributions	752,191		**752,191**	804,531		804,531
Other revenue	369,500		**369,500**	775,425		775,425
Grants		883,937	**883,937**		641,881	641,881
Attorney fees	103,123	48,955	**152,078**	221,311	117,596	338,907
Rental income	75,886		**75,886**	75,434		75,434
Interest and dividends	1,607	221	**1,828**	4,036	784	4,820
Net assets released from program restrictions	5,064,071	(5,064,071)	-	4,813,362	(4,813,362)	-
Total revenue and support	14,148,571	5,725	**14,154,296**	13,907,841	(112,529)	13,795,312
Expenses						
Program services	12,647,932		**12,647,932**	11,697,072		11,697,072
Support services	1,281,547		**1,281,547**	1,232,808		1,232,808
Fundraising	457,671		**457,671**	452,977		452,977
Total expenses	14,387,150	-	**14,387,150**	13,382,857	-	13,382,857
Change in net assets	(238,579)	5,725	**(232,854)**	524,984	(112,529)	412,455
Net assets, beginning of year	5,673,745	50,073	**5,723,818**	5,148,761	162,602	5,311,363
Net assets, end of year	$ 5,435,166	$ 55,798	**$ 5,490,964**	$ 5,673,745	$ 50,073	$ 5,723,818

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

BAY AREA LEGAL AID

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended December 31, 2014 and 2013

	December 31, 2014				December 31, 2013			
	Program Services	**Management and General**	**Fundraising**	**Total Expenses**	**Program Services**	**Management and General**	**Fundraising**	**Total Expenses**
Salaries and wages	$ 5,411,313	$ 864,040	$ 286,674	**$ 6,562,027**	$ 4,864,641	$ 817,642	$ 261,276	$ 5,943,559
Employee benefits	921,088	147,073	48,795	**1,116,956**	829,079	139,350	44,529	1,012,958
Payroll taxes	444,144	70,918	23,529	**538,591**	404,803	68,039	21,742	494,584
Total personnel costs	6,776,545	1,082,031	358,998	**8,217,574**	6,098,523	1,025,031	327,547	7,451,101
Donated services (Note 11)	3,701,291			**3,701,291**	3,577,664			3,577,664
Occupancy	767,870	80,857	35,936	**884,663**	777,481	90,451	50,251	918,183
Depreciation	288,376	30,366	13,496	**332,238**	283,369	32,967	18,315	334,651
Equipment rental and maintenance	176,093	18,543	8,241	**202,877**	157,824	18,361	10,201	186,386
Subgrants	178,227			**178,227**	127,927			127,927
Supplies	94,499	9,951	4,423	**108,873**	73,508	8,552	4,751	86,811
Professional fees	93,163	9,810	4,360	**107,333**	68,879	8,013	4,452	81,344
Telephone	78,642	8,281	3,680	**90,603**	78,481	9,130	5,072	92,683
Training	66,236	6,975	3,100	**76,311**	51,047	5,939	3,299	60,285
Travel	61,743	6,502	2,890	**71,135**	51,350	5,974	3,319	60,643
Library	67,228			**67,228**	67,541			67,541
Insurance	56,359	5,935	2,638	**64,932**	49,136	5,716	3,176	58,028
Dues and fees	49,799	5,244	2,331	**57,374**	40,787	4,745	2,636	48,168
Recruiting, staff relations, and strategic planning	46,513	4,898	2,177	**53,588**	33,965	3,951	2,195	40,111
Audit	29,511	3,108	1,381	**34,000**	27,943	3,251	1,806	33,000
Printing and copying	27,257	2,870	1,276	**31,403**	31,360	3,651	2,027	37,038
Postage and delivery	24,763	2,608	1,159	**28,530**	22,994	2,675	1,486	27,155
Work study law students	23,843			**23,843**	20,233			20,233
Advertising and public relations	7,448	1,837	10,817	**20,102**	10,079	2,338	11,298	23,715
Miscellaneous	16,400	1,731	768	**18,899**	17,735	2,063	1,146	20,944
Litigation	16,126			**16,126**	29,246			29,246
Total functional expenses	**$ 12,647,932**	**$ 1,281,547**	**$ 457,671**	**$ 14,387,150**	$ 11,697,072	$ 1,232,808	$ 452,977	$ 13,382,857

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

BAY AREA LEGAL AID

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014 and 2013

		2014		2013
Cash flows from operating activities:				
Change in net assets	$	(232,854)	$	412,455
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		332,238		334,651
Reinvested interest and dividends		(2,218)		(4,728)
Unrealized gain on investments		390		-
Changes in operating assets and liabilities:				
(Increase) decrease in cash held in trust		(21,593)		17,333
(Increase) in grants receivable		(91,628)		(313,904)
(Increase) in pledges receivable		(31,367)		(18,667)
Decrease in other receivable		128		11
Decrease (increase) in prepaid expenses		56,067		(100,498)
Decrease (increase) in other assets		7,000		(10,888)
Increase (decrease) in accounts payable		15,915		(8,706)
Increase in accrued liabilities		92,433		52,333
Increase (decrease)in deferred revenue		21,687		(18,563)
Net cash provided by operating activities		146,198		340,829
Cash flows from investing activities:				
Sale of investments		768,956		-
Purchase of investments		-		(11,250)
Purchase of property and equipment		(327,088)		(88,478)
Net cash provided (used) by investing activities		441,868		(99,728)
Cash flows from financing activities:				
Principal payments on notes payable		(119,389)		(113,417)
Net cash (used) by financing activities		(119,389)		(113,417)
Net increase in cash		468,677		127,684
Cash, beginning of year		920,490		792,806
Cash, end of year	$	1,389,167	$	920,490
Supplemental disclosure:				
Operating activities reflects interest paid of:	$	212,463	$	218,434

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

1. Organization

Bay Area Legal Aid ("BayLegal"), a California not-for-profit corporation, was founded on January 1, 2000. BayLegal is funded by donations, grants, and contracts from federal, state, county, and municipal government, private foundations, corporations, and individuals.

BayLegal provides free civil legal services to low income Bay Area residents to increase their self-sufficiency and improve their quality of life. Its vision is to build a program with the capacity to provide clients with equal access to the justice system and high quality legal assistance regardless of a client's location, language, or disability. BayLegal focuses its resources on four priority areas identified by the community as their most pressing: affordable housing and homelessness prevention, access to quality health care, public benefits, and domestic violence prevention.

BayLegal provides legal assistance in a number of ways, including information and referral, advice and brief service, legal representation, public policy development and improvement, trainings at community-based organizations, and community education and outreach.

2. Summary of Significant Accounting Policies

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

Basis of Presentation

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

Accounting

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

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

continued

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

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

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit BayLegal to expend all of the income (or other economic benefits) derived from the donated assets. BayLegal has no permanently restricted net assets at December 31, 2014 and 2013.

Allowance for Bad Debt

Although BayLegal uses the allowance method, management has determined that an allowance for bad debt is not currently required.

Contributions and Pledges Receivable

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

Investments

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

Fair Value Measurements

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

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

BayLegal is required to measure the related revenues, non-cash contributions, and certain investments at fair value. The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

continued

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

Concentration of Credit Risks

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

The primary receivable balance outstanding at December 31, 2014 and 2013 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of BayLegal's receivables consist of earned fees from contract programs granted by governmental agencies.

BayLegal holds investments in the form of equities, certificates of deposit, and short-term money market investments. Management routinely reviews market values of such investments.

Property and Equipment

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

Property and equipment acquired with federal funds or LSC funds are considered to be owned by BayLegal while used in the program or in future authorized programs. However, funding sources have reversionary interest in these assets, as well as the determination of use of any proceeds from the sale of these assets. On the Statements of Financial Position, these assets have been identified in the net assets as "Unrestricted – property and equipment".

Income Taxes

BayLegal is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

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

continued

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

Functional Allocation of Expenses

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

Use of Estimates

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

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are measured on a non-recurring basis and recorded at fair value in the period received (see Note 11).

Subsequent Events

Management has evaluated subsequent events through March 26, 2015, the date which the financial statements were available.

3. **Pledges Receivable**

Pledges receivable are recorded at estimated net realizable value in the period received. All pledges are deemed to be fully collectible; therefore, no allowance for doubtful accounts has been recorded. Pledges receivable at December 31, 2014 and 2013 of $366,116 and $334,749, respectively, are expected to be collected within one year.

continued

4. Investments

Investments at December 31, 2014 and 2013 consist of the following:

	2014	2013
Money market funds	**$1,468,954**	$1,765,572
Equities	**10,501**	11,250
Certificates of deposit	**-**	469,761
	$1,479,455	$2,246,583

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

5. Property and Equipment

Property and equipment at December 31, 2014 and 2013 consist of the following:

	2014	2013
Building	**$ 5,819,514**	$ 5,819,514
Furniture and equipment	**1,741,157**	1,735,579
Land	**1,249,500**	1,249,500
Computer equipment	**771,941**	751,310
Leasehold improvements	**406,628**	404,628
Construction in progress	**298,879**	-
Law library	**186,485**	186,485
Software	**108,260**	108,260
	10,582,364	10,255,276
Less: accumulated depreciation	**(4,263,779)**	(3,931,541)
	$ 6,318,585	$ 6,323,735

6. Accrued Liabilities

Accrued liabilities at December 31, 2014 and 2013 consist of the following:

	2014	2013
Accrued vacation	**$411,338**	$364,833
Accrued salaries	**233,414**	207,091
Client trust fund	**77,348**	55,755
Other accrued liabilities	**30,494**	32,482
	$752,594	$660,161

continued

7. Notes Payable

Notes payable at December 31, 2014 and 2013 consist of the following:

	2014	2013
Note payable to a bank, secured by a first deed of trust, interest at 5.10%, monthly payments of $26,572, due March 2023.	**$3,883,965**	$3,998,737
Note payable to a bank, secured by a first deed of trust, monthly payments of $1,083, including interest at 5.10%, due June 2019.	**159,375**	163,992
	$4,043,340	$4,162,729

Maturities for notes payable are as follows:

Year ended December 31,	
2015	$ 128,339
2016	134,486
2017	142,089
2018	149,523
2019	289,181
Thereafter	3,199,722
	$4,043,340

8. Commitments and Contingencies

Obligations Under Operating Leases

BayLegal leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year ended December 31,	
2015	$ 430,465
2016	351,976
2017	256,133
2018	89,733
2019	81,594
Thereafter	27,542
	$1,237,443

Rent expense under operating leases for the years ended December 31, 2014 and 2013 was $635,208 and $578,201, respectively.

continued

8. Commitments and Contingencies, continued

Contracts

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

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013 consist of the following:

	2014	2013
Non - LSC	**$32,074**	$17,391
Property purchased with funds from LSC	**23,724**	32,682
	$55,798	$50,073

10. Government Contracts

Government contracts for the years ended December 31, 2014 and 2013 consist of the following:

	2014	2013
Legal Service Corporation	**$4,136,683**	$3,940,572
Other	**1,677,764**	1,217,823
San Francisco Department of Human Services	**422,512**	366,090
Alameda County Behavioral Health Care Services	**359,390**	341,686
U.S. Department of Housing and Urban Development	**310,065**	331,310
California Health Benefit Exchange	**288,285**	103,949
Equal Access Funds	**274,470**	287,217
State of California, Department of Managed Health Care	**195,356**	449,137
County of San Francisco, Dept. on the Status of Women	**189,624**	166,096
IOLTA	**188,394**	199,307
U.S Department of Justice	**175,042**	173,463
	$8,217,585	$7,576,650

11. Donated Services

BayLegal has received significant contributions of non-cash services for the years ended December 31, 2014 and 2013, which is summarized below.

	2014	2013
Contributed services	**$3,701,291**	$3,577,664

12. Employee Benefit Plan

Effective January 1, 2002, BayLegal established a tax-sheltered plan under IRC Section 401(k) available to all permanent employees. BayLegal contributes 2% of the employees' salaries starting on the second year of employment through year six. During an employee's seventh and subsequent years of employment with BayLegal, the contribution will increase to 4%. The total amount contributed by BayLegal was $159,352 and $150,546 for the years ended December 31, 2014 and 2013, respectively.

13. Fair Value Measurements

The table below present transactions measured at fair value during the years ended December 31, 2014 and 2013:

December 31, 2014

	Level 1	**Level 2**	**Level 3**	**Total**
U.S. equity funds	$10,501	$ -	$ -	**$ 10,501**
Contributed services		3,701,291		**3,701,291**
Pledged contributions – current year			366,116	**366,116**
	$10,501	$3,701,291	$366,116	**$4,077,908**

December 31, 2013

	Level 1	Level 2	Level 3	Total
U.S. equity funds	$11,250	$ -	$ -	$ 11,250
Contributed services		3,577,664		3,577,664
Pledged contributions – current year			334,749	334,749
	$11,250	$3,577,664	$334,749	$3,923,663

The fair value of US equity funds has been measured on a recurring basis using quoted prices for identical assets in active market (Level 1 inputs).

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

The fair value of pledged contributions – current year has been measured on a non-recurring basis using the value provided by the donor at the date of pledge and based on evaluating the credit worthiness of the donor (Level 3 inputs).

SUPPLEMENTAL SCHEDULES

BAY AREA LEGAL AID

SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT (PAI) COMPLIANCE
For the year ended December 31, 2014

Support		
Basic grant = $4,115,647 x 12.5%	$	514,456
Total Support		514,456
Expenses		
Personnel salaries		
Attorneys		388,307
Employee benefits		70,064
Payroll taxes		33,797
Clerical and other		22,881
Paralegals		467
Total personnel costs		515,516
Non-personnel		
Rents		53,991
Equipment rental and maintenance		13,841
Professional fees		7,612
Supplies and printing		7,566
Telephone		5,824
Library		5,707
Insurance		5,621
Training, meetings and conferences		3,769
Audit		3,552
Postage		3,123
Computers, furniture and equipment		2,722
Dues		2,501
Work Study/Law Students		2,391
Travel		1,327
Litigation		1,132
Advertising and public relations		644
Miscellaneous		638
Recruitment		526
Total non-personnel		122,487
Total expense		638,003
Net PAI expenses over the requirement threshold	$	122,487

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET ASSETS FOR LEGAL SERVICES CORPORATION FUNDS
For the year ended December 31, 2014

	Basic Field Grant	Technology	Property	Total
Revenue and support				
Government contracts	$ 4,115,647	$ 21,036	$ -	$ **4,136,683**
Attorneys fees	48,955			**48,955**
Interest	221			**221**
Total revenue and support	4,164,823	21,036	-	**4,185,859**
Expenses				
Salaries and wages	2,528,509			**2,528,509**
Employee benefits	430,391			**430,391**
Payroll taxes	207,532			**207,532**
Total personnel costs	3,166,432	-	-	**3,166,432**
Rents	425,561			**425,561**
Equipment rental and maintenance	109,093			**109,093**
Professional fees	59,996			**59,996**
Supplies and printing	59,636			**59,636**
Telephone	45,906			**45,906**
Insurance	44,304			**44,304**
Training, meetings, and conferences	29,710			**29,710**
Travel	43,409			**43,409**
Library	44,980			**44,980**
Audit	27,997			**27,997**
Postage	24,617			**24,617**
Work study/law students	18,843			**18,843**
Dues	19,711			**19,711**
Depreciation			19,006	**19,006**
Computers, furniture, and equipment	21,456			**21,456**
Litigation	8,923			**8,923**
Recruitment	4,143			**4,143**
Advertising and public relations	5,075			**5,075**
Miscellaneous	5,031			**5,031**
Total expenses	4,164,823	-	19,006	**4,183,829**
Changes in net assets before other changes	-	21,036	(19,006)	**2,030**
Other changes				
Acquisition of property			10,048	**10,048**
Changes in net assets after other changes	-	21,036	(8,958)	**12,078**
Net assets, beginning of year			32,682	**32,682**
Net assets, end of year	$ -	$ 21,036	$ 23,724	$ **44,760**

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended December 31, 2014

Program Name	Contract Number	Contract Term	Program Award	Program Expenditure
States Award				
Attorney General				
Community Housing Development Corporation				
Bay Area Foreclosure Recovery ("BAFR")	MOU	04/1/2013-10/1/2014	$ 121,000	$ 78,554
Total Attorney General			121,000	78,554
The State Bar of California – Equal Access Fund				
Domestic Violence Prevention Project – Regional	Program 93	10/01/2013-09/30/2014	283,304	212,478
Domestic Violence Prevention Project – Regional	Program 93	10/01/2014-12/31/2015	309,961	61,992
Total The State Bar of California – Equal Access Fund			593,265	274,470
The State Bar of California – Equal Access Fund Partnership Grants				
Contra Costa County Housing Law Clinic	93-12	01/1/2014-12/31/2014	60,000	60,000
Total The State Bar of California – Equal Access Fund Partnership Grant			60,000	60,000
Alameda County Behavioral Health Care Services				
Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PC9026	07/1/2013-06/30/2014	426,400	218,146
Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PC10153	07/1/2014-06/30/2015	586,400	262,120
Total Alameda County Behavioral Health Care Services			1,012,800	480,266
Superior Court of California				
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-14D002	07/1/2013-06/30/2014	10,000	5,000
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-15D008	07/1/2014-06/30/2015	10,000	5,000
Total Superior Court of California			20,000	10,000
Covered California - California Health Benefit Exchange				
Pass-through, Legal Aid Society of San Diego, Regional Health Access and Affordable Care Act Implementation	12-E9069	05/13/2013-6/30/2015	448,125	288,285
Total Covered California			448,125	288,285
State of California Managed Care Funds				
Pass-through, State of California of Managed Health Care ("DMHC") Consumer Assistance Program – Regional	12MC-SA007	01/17/2013-11/28/2014	314,572	94,808
Total State of California Managed Care Funds			314,572	94,808
Alameda County Social Services Agency				
SSI/SSP or CAPI Benefits Support Services for CalWORKS	900154/PO11497	07/1/2013-06/30/2014	56,100	12,464
SSI/SSP or CAPI Benefits Support Services for CalWORKS	900154/PO11497	07/1/2014-06/30/2015	56,100	16,291
Total Alameda County SSA			112,200	28,755
Department of Managed Health Care				
Pass-through, Legal Aid Society of San Diego, CCI Ombudsman – Cal MediConnect	MOU	04/1/2014-08/31/2016	166,893	56,098
Total Department of Managed Health Care			166,893	56,098
California Emergency Management Agency				
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics	DVAP 13-14	07/1/2013-06/30/2014	20,000	9,271
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics	DVAP 14-15	07/1/2014-06/30/2015	20,000	10,646
Total California Emergency Management Agency			40,000	19,917
Total State Awards			**$ 2,888,855**	**$ 1,391,153**

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2014

Program Name	Contract Number	Federal CFDA No.	Contract Term	Program Award	Program Expenditure
Federal Award					
Legal Services Corporation ("LSC") pass-through program:					
Civil Legal Services Program (a)	CA-28	09.805270	01/01/2014-12/31/2014	$ 4,115,647	$ 4,115,647
Technology Initiative Grant (TIG)	TIG 14026		10/01/2014-09/30/2016	53,990	21,036
Total LSC pass-through				4,169,637	4,136,683
U.S. Department of Housing and Urban Development ("HUD")					
Directly from the HUD Office of Fair Housing and Equal Opportunity:					
Fair Housing Initiative Program (FHIP)	FH700G10104	14.410	04/1/2013-03/31/2014	325,000	73,805
Fair Housing Initiative Program (FHIP)	FH700G13055	14.410	04/1/2014-03/31/2015	325,000	236,260
Sub-total direct from HUD - FHIP				650,000	310,065
Pass-through City of Richmond-Fair Housing Legal Services (CDBG)	MOU	14.218	01/01/2014-06/30/2014	12,651	11,414
Sub-total pass through, City of Richmond CDBG				12,651	11,414
Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG)	13-01-PS	14.218	07/01/2013-06/30/2014	55,000	19,645
Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG)	14-01-PS	14.218	07/01/2014-06/30/2015	55,000	27,991
Pass-through Contra Costa County-Home Equity Preservation Alliance (CDBG)	MOU	14.218	07/01/2013-06/30/2014	9,125	4,643
Pass-through Contra Costa County-Home Equity Preservation Alliance (CDBG)	MOU	14.218	07/01/2014-06/30/2016	8,000	3,967
Sub-total pass-through, Contra Costa County				127,125	56,246
Pass-through, City of Pittsburg-Contra Costa County Legal Safety Net (CDBG)	13-001 PS	14.218	07/1/2013-06/30/2014	9,250	2,479
Sub-total pass-through, City of Pittsburg				9,250	2,479
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG)		14.218	07/1/2013-06/30/2014	10,000	2,308
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG)		14.218	07/1/2014-06/30/2015	10,000	7,477
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG)		14.218	07/1/2013-06/30/2014	20,000	9,634
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG)		14.218	07/1/2014-06/30/2015	20,000	8,951
Sub-total pass-through, City of Antioch				60,000	28,370
Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG)	12-04	14.218	07/1/2013-06/30/2014	9,742	3,549
Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG)	PO13506	14.218	07/1/2014-06/30/2015	9,930	6,658
Sub-total pass-through, City of Concord				19,672	10,207
Pass-through, City of San Francisco-Housing Legal Services (CDBG)	40256	14.218	07/01/2013-06/30/2014	65,000	29,686
Pass-through, City of San Francisco-Legal Safety Net Project/Subsized Housing Advocacy (CDBG)	40537	14.218	07/01/2014-06/30/2015	65,000	62,056
Pass-through, City of San Francisco-Domestic Violence Legal Services (CDBG)	40255	14.218	07/1/2013-06/30/2014	40,000	17,877
Sub-total pass-through, City of San Francisco				170,000	109,619
Pass-through, City of South San Francisco, Domestic Violence Legal Safety Net (HOME)	100812	14.239	07/01/2013-06/30/2014	10,000	3,704
Sub-total pass-through, City of South San Francisco				10,000	3,704
Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG)	79000-13-D016	14.218	07/1/2013-06/30/2014	25,000	6,620
Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG)	79000-13-D016	14.218	07/1/2014-06/30/2016	50,000	20,116
Sub-total pass-through, County of San Mateo				75,000	26,736
Total HUD				1,133,698	558,840

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2014

Program Name	Contract Number	Federal CFDA No.	Contract Term	Program Award	Program Expenditure
Federal Award					
U.S. Department of Health and Human Services ("DHHS"):					
Pass-through, State of California Community Services Block Grant (CSBG) to City of Oakland, Oakland Community Action Partnership (OCAP)	13F-4402	93.569	01/01/2014-12/31/2014	40,000	40,000
Pass-through, State of California Community Services Block Grant (CSBG) to Alameda County	13F-4402	93.569	01/01/2014-12/31/2014	40,000	40,000
Pass-through, City of Oakland, Temporary Assistance for Needy Families - SSI Advocacy	900154/PO#10678	93.558	07/01/2012-06/30/2013	55,000	12,464
Pass-through, City of Oakland, Temporary Assistance for Needy Families - SSI Advocacy	900154/PO#11497	93.558	07/01/2013-06/30/2014	55,000	16,291
Sub-total pass-through, City of Oakland				190,000	108,755
Pass-through, Alameda County, Medical Assistance Program	MOU	93.778	07/01/2013-06/30/2014	61,593	61,593
Sub-total pass-through, Alameda County				61,593	61,593
Pass-through, Contra Costa County, Employment & Human Services - Legal Safety Net Project (CSBG)	38-384-2	93.569	04/01/2014-2/28/2015	19,700	17,000
				19,700	17,000
Pass through, Rubicon Programs Inc., Responsible Fatherhood Ex-Prisoner Reentry Program	MOU	93.086	09-30/2013-09/29/2014	15,000	9,943
Pass through, Rubicon Programs Inc., Responsible Fatherhood Ex-Prisoner Reentry Program	MOU	93.086	09/30/2013-09/29/2014	15,000	8,449
Sub-total pass-through, Rubicon Programs Inc.				30,000	18,392
Pass through, Legal Aid of San Diego, Department of Managed Health Care (DMHC)	12MC-SA007	93.519	01/17/2013-12/31/2014	645,938	99,870
Sub-total pass-through, Legal Aid of San Diego				645,938	99,870
Total DHHS				947,231	305,610
U.S.Department of Justice ("DOJ"):					
Directly from Office on Victims of Crime Regional Youth Trafficking Program	2014-VT-BX-K008	16.320	10/01/2014-11/30/2016	400,000	171
Directly from Office on Violence Against Women (OVW), Legal Assistance to Victims (LAV) Program	2012-WL-AX-0030	16.524	10/01/2012-09/31/2015	500,000	174,871
Pass through, Contra Costa County, Grant to Encourage Arrests (GTEA)	19-643-0	16.590	09/01/2010-12/31/2014	130,000	105,118
Pass through, San Mateo County, Grant to Encourage Arrests (GTEA)	30000-13-D055	16.590	10/01/2012-09/30/2014	34,195	12,397
Pass through, Office of Juvenile Justice and Delinquency Prevention, City of Oakland					
Second Chance Juvenile Reentry		16.812	1/01/2013-12/31/2014	40,000	20,000
Pass through, Office of Justice Programs' Bureau of Justice Assistance, Contra Costa County					
Second Chance Act Prisoner Reentry Initiative	F45327	16.812	10/01/2012-07/31/2014	46,000	28,892
Second Chance Act Prisoner Reentry Initiative	45327-4	16.812	07/01/2014-06/30/2015	25,000	6,420
Total DOJ				1,175,195	347,869
U.S. Department of Veterans Affairs ("DVA")					
Pass through, Abode Service, Supportive Services to Veteran and their Families (SSVF) Program	MOU	64.033	10/01/2013-12/31/2014	50,000	49400
Pass through, East Oakland Community Project, Oakland Together for Veterans Collaborative Program	MOU	64.033	10/01/2013-12/31/2014	61,842	58,052
Pass through, Shelter Inc, Supportive Services for Veteran Families (SSVF) Program	MOU	64.033	10/01/2013-09/30/2014	41,250	21,154
Pass through, Shelter Inc, Supportive Services for Veteran Families (SSVF) Program	MOU	64.033	10/01/2013-09/30/2014	42,441	8,422
Total DVA				195,533	137,028
Total Federal Awards				$ 7,621,294	$ 5,486,030

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2014

Program Name	Contract Number	Federal CFDA No.	Contract Term	Program Award	Program Expenditure
Federal Award					

(a) Audited as major program

Summary of Significant Accounting Policies:

1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2) BayLegal is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.
3) BayLegal provided federal awards to the following subrecipients:

Agency	Federal CFDA No.	Amount Provided
Legal Aid of San Mateo	93.519	$ 29,643
General Assistance Advocacy Project	16.524	4,500
Canal Alliance	16.524	10,667
Cooperative Restraining Order Clinic	16.524	17,243
International Institute of the Bay Area	16.524	14,000
Legal Aid Napa Valley	16.524	11,117
Eden Council for Hope & Oppurtunity	14.218	13,540
Total Federal		100,710
State and Local Grants		
Rubicon Programs Inc.		20,033
National Senior Citizens Law Center		2,390
BASF-SF Eviction Represent Collaborative		29,660
Legal Assistance to the Elderly		25,434
		77,517
Total		$ 178,227

ADDITIONAL INFORMATION

Harrington Group

Certified Public Accountants, LLP

Independent Auditors' 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
Bay Area Legal Aid

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 Bay Area Legal Aid ("BayLegal"), which comprise the Statement of Financial Position as of December 31, 2014, 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 March 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BayLegal's internal control over financial reporting 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 BayLegal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BayLegal'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 BayLegal'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 over financial reporting 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BayLegal'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 of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BayLegal's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
March 26, 2015

Harrington Group

Certified Public Accountants, LLP

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Bay Area Legal Aid

Report on Compliance for Each Major Federal Program

We have audited Bay Area Legal Aid ("BayLegal") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of BayLegal's major federal programs for the year ended December 31, 2014. BayLegal'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of BayLegal'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Compliance Supplement for Audits of Legal Services Recipients. Those standards OMB Circular A-133 and Compliance Supplement for Audits of Legal Services Recipients 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 BayLegal'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 BayLegal's compliance.

Opinion on Each Major Federal Program

In our opinion, BayLegal 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, 2014.

Report on Internal Control Over Compliance

Management of BayLegal 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 of compliance, we considered BayLegal'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 the 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 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 BayLegal'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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
March 26, 2015

BAY AREA LEGAL AID
Schedule of Findings and Questioned Costs
For the year ended December 31, 2014

Section I – Summary of Auditors' Results

<u>Financial Statements:</u>	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal Awards:</u>	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	No*
<u>Identification of Major Programs:</u>	
Legal Service Corporation:	
Civil Legal Services Program	09.805270

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards.*

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.

*It is highly unlikely that the LSC recipient would be considered a "low-risk auditee" based on the criteria defined in Sections 525(b), (c) and (d) of OMB Circular A-133 (*see* Audit Bulletin 97-01; see also Section 530 of OMB Circular A-133). Therefore, consistent with Audit Bulletin 97-01, for purposes of the current audit period, the LSC recipient cannot be considered a "low-risk auditee".