

BAY AREA LEGAL AID

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2015 and 2014

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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, 2015 and 2014, 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.

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INDEPENDENT AUDITORS' REPORT

continued

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, 2015 and 2014, 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 Matter

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 as required by the LSC *Audit Guide for Recipients*, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 30, 2016, 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 30, 2016

BAY AREA LEGAL AID

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 591,096 | \$ 1,389,167 |
| Cash held in trust | 29,920 | 77,348 |
| Grants receivable | 1,346,089 | 999,379 |
| Pledges receivable (Note 3) | 392,260 | 366,116 |
| Prepaid expenses | 32,586 | 44,821 |
| Other assets | 124,397 | 72,369 |
| Investments (Note 4) | 2,182,670 | 1,479,455 |
| Property and equipment (Note 5) | 6,157,342 | 6,318,585 |
| TOTAL ASSETS | <u>\$ 10,856,360</u> | <u>\$ 10,747,240</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 154,101 | \$ 135,503 |
| Accrued liabilities (Note 6) | 748,697 | 752,594 |
| Deferred revenue | 457,554 | 324,839 |
| Notes payable (Note 7) | 3,917,657 | 4,043,340 |
| TOTAL LIABILITIES | <u>5,278,009</u> | <u>5,256,276</u> |
| NET ASSETS | | |
| Unrestricted | 3,303,812 | 3,183,645 |
| Unrestricted - property and equipment (Note 2) | 2,202,023 | 2,251,521 |
| Temporarily restricted (Note 9) | 72,516 | 55,798 |
| TOTAL NET ASSETS | <u>5,578,351</u> | <u>5,490,964</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 10,856,360</u> | <u>\$ 10,747,240</u> |

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

BAY AREA LEGAL AID

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2015 and 2014

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---------------------|------------------------|---------------------|---------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | | Unrestricted | Temporarily Restricted | |
| | | Total | | | Total | |
| REVENUE AND SUPPORT | | | | | | |
| Government contracts (Note 10) | \$ 5,071,500 | \$ 4,248,257 | \$ 9,319,757 | \$ 4,080,902 | \$ 4,136,683 | \$ 8,217,585 |
| Donated services (Note 11) | 4,217,754 | | 4,217,754 | 3,701,291 | | 3,701,291 |
| Contributions | 737,846 | | 737,846 | 752,191 | | 752,191 |
| Other revenue | 184,479 | | 184,479 | 369,500 | | 369,500 |
| Grants | | 1,093,588 | 1,093,588 | | 883,937 | 883,937 |
| Attorney fees | 445,718 | 10,000 | 455,718 | 103,123 | 48,955 | 152,078 |
| Rental income | 87,790 | | 87,790 | 75,886 | | 75,886 |
| Interest and dividends | 2,971 | 1,121 | 4,092 | 1,997 | 221 | 2,218 |
| (Loss) on investments | (15,416) | | (15,416) | (390) | | (390) |
| Net assets released from program restrictions | 5,336,248 | (5,336,248) | - | 5,064,071 | (5,064,071) | - |
| TOTAL REVENUE AND SUPPORT | 16,068,890 | 16,718 | 16,085,608 | 14,148,571 | 5,725 | 14,154,296 |
| EXPENSES | | | | | | |
| Program services | 14,107,198 | | 14,107,198 | 12,647,932 | | 12,647,932 |
| Support services | 1,395,850 | | 1,395,850 | 1,281,547 | | 1,281,547 |
| Fundraising | 568,667 | | 568,667 | 457,671 | | 457,671 |
| TOTAL EXPENSES | 16,071,715 | - | 16,071,715 | 14,387,150 | - | 14,387,150 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (2,825) | 16,718 | 13,893 | (238,579) | 5,725 | (232,854) |
| OTHER CHANGES | | | | | | |
| Gain on acquisition of Legal Aid of Napa Valley (Note 14) | 73,494 | | 73,494 | | | - |
| CHANGE IN NET ASSETS | 70,669 | 16,718 | 87,387 | (238,579) | 5,725 | (232,854) |
| NET ASSETS, BEGINNING OF YEAR | 5,435,166 | 55,798 | 5,490,964 | 5,673,745 | 50,073 | 5,723,818 |
| NET ASSETS, END OF YEAR | \$ 5,505,835 | \$ 72,516 | \$ 5,578,351 | \$ 5,435,166 | \$ 55,798 | \$ 5,490,964 |

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, 2015 and 2014

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|----------------------|---------------------|-------------------|----------------------|----------------------|---------------------|-------------------|----------------------|
| | Program Services | Support Services | Fundraising | Total Expenses | Program Services | Support Services | Fundraising | Total Expenses |
| Salaries and wages | \$ 5,784,893 | \$ 918,672 | \$ 348,286 | \$ 7,051,851 | \$ 5,411,313 | \$ 864,040 | \$ 286,674 | \$ 6,562,027 |
| Employee benefits | 996,836 | 158,303 | 60,016 | 1,215,155 | 921,088 | 147,073 | 48,795 | 1,116,956 |
| Payroll taxes | 472,946 | 75,106 | 28,474 | 576,526 | 444,144 | 70,918 | 23,529 | 538,591 |
| Total personnel costs | <u>7,254,675</u> | <u>1,152,081</u> | <u>436,776</u> | <u>8,843,532</u> | <u>6,776,545</u> | <u>1,082,031</u> | <u>358,998</u> | <u>8,217,574</u> |
| Donated services (Note 11) | 4,217,754 | | | 4,217,754 | 3,701,291 | | | 3,701,291 |
| Occupancy | 808,965 | 92,991 | 46,471 | 948,427 | 767,870 | 80,857 | 35,936 | 884,663 |
| Subgrants | 386,333 | | | 386,333 | 178,227 | | | 178,227 |
| Depreciation | 323,060 | 37,116 | 18,558 | 378,734 | 288,376 | 30,366 | 13,496 | 332,238 |
| Professional fees | 251,837 | 24,562 | 12,281 | 288,680 | 93,163 | 9,810 | 4,360 | 107,333 |
| Equipment rental and maintenance | 152,480 | 17,518 | 8,759 | 178,757 | 176,093 | 18,543 | 8,241 | 202,877 |
| Supplies | 127,855 | 14,689 | 7,345 | 149,889 | 94,499 | 9,951 | 4,423 | 108,873 |
| Telephone | 90,851 | 10,438 | 5,219 | 106,508 | 78,642 | 8,281 | 3,680 | 90,603 |
| Training | 72,604 | 8,341 | 4,171 | 85,116 | 66,236 | 6,975 | 3,100 | 76,311 |
| Travel | 65,042 | 7,473 | 3,736 | 76,251 | 61,743 | 6,502 | 2,890 | 71,135 |
| Insurance | 63,381 | 7,282 | 3,641 | 74,304 | 56,359 | 5,935 | 2,638 | 64,932 |
| Dues and fees | 49,348 | 5,670 | 2,835 | 57,853 | 49,799 | 5,244 | 2,331 | 57,374 |
| Library | 52,564 | | | 52,564 | 67,228 | | | 67,228 |
| Printing and copying | 36,308 | 4,171 | 2,086 | 42,565 | 27,257 | 2,870 | 1,276 | 31,403 |
| Audit | 29,002 | 3,332 | 1,666 | 34,000 | 29,511 | 3,108 | 1,381 | 34,000 |
| Recruiting, staff relations, and strategic planning | 25,892 | 2,975 | 1,487 | 30,354 | 46,513 | 4,898 | 2,177 | 53,588 |
| Miscellaneous | 24,041 | 2,701 | 1,381 | 28,123 | 16,400 | 1,731 | 768 | 18,899 |
| Postage and delivery | 23,153 | 2,660 | 1,330 | 27,143 | 24,763 | 2,608 | 1,159 | 28,530 |
| Work study law students | 24,802 | | | 24,802 | 23,843 | | | 23,843 |
| Litigation | 21,147 | | | 21,147 | 16,126 | | | 16,126 |
| Advertising and public relations | 6,104 | 1,850 | 10,925 | 18,879 | 7,448 | 1,837 | 10,817 | 20,102 |
| TOTAL FUNCTIONAL EXPENSES | \$ 14,107,198 | \$ 1,395,850 | \$ 568,667 | \$ 16,071,715 | \$ 12,647,932 | \$ 1,281,547 | \$ 457,671 | \$ 14,387,150 |

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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 87,387 | \$ (232,854) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 378,734 | 332,238 |
| Reinvested interest and dividends | (3,185) | (2,218) |
| Unrealized loss on investments | 15,416 | 390 |
| Gain on acquisition of Legal Aid of Napa Valley | (73,494) | - |
| Cash acquired from acquisition of Legal Aid Napa Valley | 92,531 | - |
| (Increase) decrease in operating assets: | | |
| Cash held in trust | 47,428 | (21,593) |
| Grants receivable | (346,710) | (91,367) |
| Pledges receivable | (26,144) | (31,367) |
| Other receivable | - | 128 |
| Prepaid expenses | 12,235 | 56,067 |
| Other assets | (50,028) | 7,000 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (6,069) | 15,915 |
| Accrued liabilities | (3,897) | 92,433 |
| Deferred revenue | 132,715 | 21,687 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>256,919</u> | <u>146,198</u> |
| CASH FLOWS FORM INVESTING ACTIVITIES: | | |
| Sale of investments | 1,501,603 | 768,956 |
| Purchase of investments | (2,217,049) | - |
| Purchase of property and equipment | (213,861) | (327,088) |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | <u>(929,307)</u> | <u>441,868</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | (125,683) | (119,389) |
| NET CASH (USED) BY FINANCING ACTIVITIES: | <u>(125,683)</u> | <u>(119,389)</u> |
| NET (DECREASE) INCREASE IN CASH | <u>(798,071)</u> | <u>468,677</u> |
| CASH, BEGINNING OF YEAR | <u>1,389,167</u> | <u>920,490</u> |
| CASH, END OF YEAR | <u>\$ 591,096</u> | <u>\$ 1,389,167</u> |
| SUPPLEMENTAL DISCLOSURE: | | |
| Operating activities reflects interest paid of: | <u>\$ 206,170</u> | <u>\$ 212,463</u> |
| Non-cash transactions: | | |
| Net property and equipment acquired in acquisition of Legal Aid Napa Valley | <u>\$ (3,630)</u> | <u>\$ -</u> |
| Other asset acquired in acquisitions of Legal Aid Napa Valley | <u>\$ (2,000)</u> | <u>\$ -</u> |
| Accounts payable acquired in acquisition of Legal Aid Napa Valley | <u>\$ 24,667</u> | <u>\$ -</u> |

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

BAY AREA LEGAL AID

NOTES TO 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.

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.

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2015 and 2014.

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 the financial statement elements are described in the notes below that relate to each element.

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.

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

The primary receivable balance outstanding at December 31, 2015 and 2014 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.

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.

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

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

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 30, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appears to require recognition or disclosure in the financial statements.

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, 2015 and 2014 of \$392,261 and \$366,116, respectively, are expected to be collected within one year.

4. Investments

Investments at December 31, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--------------------|--------------------|--------------------|
| Money market funds | \$ 701,094 | \$1,468,954 |
| Bond funds | 627,899 | - |
| Exchange traded | 609,310 | - |
| Mutual fund | 233,633 | - |
| Equities | <u>10,734</u> | <u>10,501</u> |
| | <u>\$2,182,670</u> | <u>\$1,479,455</u> |

The fair values of bond funds, exchange traded products, mutual funds, and equities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2015 and 2014 consist of the following:

December 31, 2015

| | <u>Non-LSC</u> | <u>LSC</u> | <u>Total</u> |
|--------------------------------|---------------------|------------------|---------------------|
| Building | \$ 5,819,514 | \$ - | \$ 5,819,514 |
| Furniture and equipment | 1,801,091 | 11,376 | 1,812,467 |
| Land | 1,249,500 | | 1,249,500 |
| Computer equipment | 734,595 | 68,960 | 803,555 |
| Leasehold improvements | 447,561 | | 447,561 |
| Construction in progress | 388,728 | | 388,728 |
| Law library | 186,485 | | 186,485 |
| Software | <u>108,260</u> | | <u>108,260</u> |
| | 10,735,734 | 80,336 | 10,816,070 |
| Less: accumulated depreciation | <u>(4,616,052)</u> | <u>(42,676)</u> | <u>(4,658,728)</u> |
| | <u>\$ 6,119,682</u> | <u>\$ 37,660</u> | <u>\$ 6,157,342</u> |

December 31, 2014

| | <u>Non-LSC</u> | <u>LSC</u> | <u>Total</u> |
|--------------------------------|---------------------|------------------|---------------------|
| Building | \$ 5,819,514 | \$ - | \$ 5,819,514 |
| Furniture and equipment | 1,729,781 | 11,376 | 1,741,157 |
| Land | 1,249,500 | | 1,249,500 |
| Computer equipment | 725,265 | 46,676 | 771,941 |
| Leasehold improvements | 406,628 | | 406,628 |
| Construction in progress | 298,879 | | 298,879 |
| Law library | 186,485 | | 186,485 |
| Software | <u>108,260</u> | | <u>108,260</u> |
| | 10,524,312 | 58,052 | 10,582,364 |
| Less: accumulated depreciation | <u>(4,229,451)</u> | <u>(34,328)</u> | <u>(4,263,779)</u> |
| | <u>\$ 6,294,861</u> | <u>\$ 23,724</u> | <u>\$ 6,318,585</u> |

6. Accrued Liabilities

Accrued liabilities at December 31, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|---------------------------|------------------|------------------|
| Accrued vacation | \$433,653 | \$411,338 |
| Accrued salaries | 254,356 | 233,414 |
| Client trust fund | 29,920 | 77,348 |
| Other accrued liabilities | <u>30,768</u> | <u>30,494</u> |
| | <u>\$748,697</u> | <u>\$752,594</u> |

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

7. Notes Payable

Notes payable at December 31, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--|---------------------------|---------------------------|
| Note payable to a bank, secured by a first deed of trust, interest at 5.10%, monthly payments of \$26,572, due March 2023. | \$3,763,144 | \$3,883,965 |
| 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. | <u>154,513</u> | <u>159,375</u> |
| | <u>\$3,917,657</u> | <u>\$4,043,340</u> |

Maturities for notes payable are as follows:

| <u>Year ended December 31,</u> | |
|--------------------------------|---------------------------|
| 2016 | \$ 134,486 |
| 2017 | 142,089 |
| 2018 | 149,523 |
| 2019 | 289,285 |
| 2020 | 158,709 |
| Thereafter | <u>3,043,565</u> |
| | <u>\$3,917,657</u> |

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:

| <u>Year ended December 31,</u> | |
|--------------------------------|---------------------------|
| 2016 | \$ 542,563 |
| 2017 | 452,517 |
| 2018 | 291,392 |
| 2019 | 288,854 |
| 2020 | 234,530 |
| Thereafter | <u>371,632</u> |
| | <u>\$2,181,488</u> |

Rent expense under operating leases for the years ended December 31, 2015 and 2014 was \$663,720 and \$635,208, respectively.

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

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, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Non - LSC | \$34,856 | \$32,074 |
| Property purchased with funds from LSC | <u>37,660</u> | <u>23,724</u> |
| | <u>\$72,516</u> | <u>\$55,798</u> |

10. Government Contracts

Government contracts for the years ended December 31, 2015 and 2014 consist of the following:

| | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|
| Legal Service Corporation | \$4,203,084 | \$4,136,683 |
| Other | 1,159,358 | 1,677,764 |
| San Francisco Mayor's Office of Housing and Community Development | 734,589 | - |
| Alameda County Behavioral Health Care Services | 669,416 | 359,390 |
| Alameda County Health Care Services Agency | 393,484 | - |
| State of California, Department of Managed Health Care | 389,903 | 195,356 |
| San Francisco Department of Human Services | 373,369 | 422,512 |
| Equal Access Funds | 345,610 | 274,470 |
| U.S. Department of Housing and Urban Development | 318,200 | 310,065 |
| U.S. Department of Justice | 233,842 | 175,042 |
| County of San Francisco, Dept. on the Status of Women | 233,738 | 189,624 |
| IOLTA | 192,457 | 188,394 |
| California Health Benefit Exchange | <u>72,707</u> | <u>288,285</u> |
| | <u>\$9,319,757</u> | <u>\$8,217,585</u> |

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

11. Donated Services

BayLegal has received significant contributions of non-cash services for the years ended December 31, 2015 and 2014, which is summarized below.

| | | |
|----------------------|--------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| Contributed services | <u>\$4,217,754</u> | <u>\$3,701,291</u> |

12. Employee Benefit Plan

Effective January 1, 2002, BayLegal established a tax-sheltered plan under Internal Revenue Code Section 401(k) available to all permanent employees. BayLegal contributes 4% of the employees' salaries after the completion of the first year of employment with BayLegal. The total amount contributed by BayLegal was \$236,678 and \$159,352 for the years ended December 31, 2015 and 2014, respectively.

13. Fair Value Measurements

The table below present transactions measured at fair value during the years ended December 31, 2015 and 2014 on a recurring:

December 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------------|--------------------|----------------|----------------|--------------------|
| Bond funds | \$ 627,899 | \$ - | \$ - | \$ 627,899 |
| Exchange traded products | 609,310 | | | 609,310 |
| Mutual funds | 233,633 | | | 233,633 |
| U.S. equity funds | <u>10,734</u> | | | <u>10,734</u> |
| | <u>\$1,481,576</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,481,576</u> |

December 31, 2014

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------|-----------------|----------------|----------------|-----------------|
| U.S. equity funds | <u>\$10,501</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$10,501</u> |

The fair value of bond funds, exchange traded products, mutual funds, and U.S. equity funds has been measured on a recurring basis using quoted prices for identical assets in active market (Level 1 inputs).

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

The table below present transactions measured at fair value during the years ended December 31, 2015 and 2014 on a non-recurring:

December 31, 2015

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|--------------------|------------------|--------------------|
| Contributed services | \$ - | \$4,217,754 | \$ - | \$4,217,754 |
| Pledged contributions – current year | | | <u>392,261</u> | <u>392,261</u> |
| | <u>\$ -</u> | <u>\$4,217,754</u> | <u>\$392,261</u> | <u>\$4,610,015</u> |

December 31, 2014

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|--------------------|------------------|--------------------|
| Contributed services | \$ - | \$3,701,291 | \$ - | \$3,701,291 |
| Pledged contributions – current year | | | <u>366,116</u> | <u>366,116</u> |
| | <u>\$ -</u> | <u>\$3,701,291</u> | <u>\$366,116</u> | <u>\$4,067,407</u> |

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).

14. Acquisition of Legal Aid of Napa Valley

BayLegal acquired Legal Aid of Napa Valley in a transaction accounted for as an acquisition. BayLegal did not transfer any consideration as part of the acquisition. The following list summarized the fair values of the assets acquired and liabilities assumed in addition to the classification of the net assets acquired.

| | |
|------------------------------|------------------|
| Cash | \$ 92,531 |
| Property and equipment – net | 3,630 |
| Other assets | 2,000 |
| Accounts payable | <u>(24,667)</u> |
| Gain on acquisition | <u>\$ 73,494</u> |

SUPPLEMENTAL SCHEDULES

BAY AREA LEGAL AID

SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT (PAI) COMPLIANCE

For the year ended December 31, 2015

SUPPORT

| | |
|-----------------------------------|-----------------------|
| Basic grant = \$4,203,084 x 12.5% | \$ 525,386 |
| TOTAL SUPPORT | <u>525,386</u> |

EXPENSES

Personnel salaries

| | |
|--------------------|-----------------------|
| Attorneys | 576,934 |
| Employee benefits | 105,931 |
| Payroll taxes | 50,258 |
| Clerical and other | 35,727 |
| Paralegals | 2,083 |
| | <u>770,933</u> |

NON-PERSONNEL

| | |
|-------------------------------------|-----------------------|
| Rents | 80,580 |
| Equipment rental and maintenance | 17,859 |
| Supplies and printing | 12,610 |
| Telephone | 10,383 |
| Insurance | 7,867 |
| Training, meetings, and conferences | 5,354 |
| Travel | 5,343 |
| Library | 5,206 |
| Audit | 3,672 |
| Postage | 3,602 |
| Dues | 3,501 |
| Computers, furniture, and equipment | 3,003 |
| Work Study/Law Students | 2,538 |
| Litigation | 2,052 |
| Recruitment | 1,285 |
| Professional fees | 415 |
| Miscellaneous | 126 |
| TOTAL NON-PERSONNEL | <u>165,396</u> |

| | |
|-----------------------|-----------------------|
| TOTAL EXPENSES | <u>936,329</u> |
|-----------------------|-----------------------|

NET PAI EXPENSES OVER THE REQUIREMENT THRESHOLD

| |
|--------------------------|
| <u>\$ 410,943</u> |
|--------------------------|

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, 2015

| | Basic Field Grant | Technology | Property | Total |
|---|----------------------------------|-------------------|------------------|------------------|
| REVENUE AND SUPPORT | | | | |
| Government contracts | \$ 4,203,084 | \$ 45,173 | \$ - | \$ 4,248,257 |
| Attorneys fees | 10,000 | | | 10,000 |
| Interest | 1,121 | | | 1,121 |
| TOTAL REVENUE AND SUPPORT | 4,214,205 | 45,173 | - | 4,259,378 |
| EXPENSES | | | | |
| Salaries and wages | 2,431,418 | 1,289 | | 2,432,707 |
| Employee benefits | 418,975 | 95 | | 419,070 |
| Payroll taxes | 198,782 | 217 | | 198,999 |
| TOTAL PERSONNEL COSTS | 3,049,175 | 1,601 | - | 3,050,776 |
| Rents | 496,295 | | | 496,295 |
| Equipment rental and maintenance | 109,993 | | | 109,993 |
| Professional fees | 139,671 | 59,083 | | 198,754 |
| Supplies and printing | 67,665 | | | 67,665 |
| Telephone | 63,951 | | | 63,951 |
| Insurance | 48,455 | | | 48,455 |
| Training, meetings, and conferences | 32,975 | | | 32,975 |
| Travel | 42,142 | | | 42,142 |
| Library | 32,064 | | | 32,064 |
| Audit | 22,616 | | | 22,616 |
| Postage | 22,186 | | | 22,186 |
| Work study/law students | 15,632 | | | 15,632 |
| Dues | 21,565 | | | 21,565 |
| Depreciation | | | 8,348 | 8,348 |
| Computers, furniture, and equipment | 28,494 | | | 28,494 |
| Litigation | 12,636 | | | 12,636 |
| Recruitment | 7,914 | | | 7,914 |
| Miscellaneous | 776 | | | 776 |
| TOTAL EXPENSES | 4,214,205 | 60,684 | 8,348 | 4,283,237 |
| CHANGES IN NET ASSETS BEFORE OTHER CHANGES | - | (15,511) | (8,348) | (23,859) |
| OTHER CHANGES | | | | |
| Acquisition of property | | | 22,284 | 22,284 |
| CHANGES IN NET ASSETS AFTER OTHER CHANGES | - | (15,511) | 13,936 | (1,575) |
| NET ASSETS, BEGINNING OF YEAR | | 21,036 | 23,724 | 44,760 |
| NET ASSETS, END OF YEAR | \$ - | \$ 5,525 | \$ 37,660 | \$ 43,185 |

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended December 31, 2015

| <u>Program Name</u> | <u>Contract Number</u> | <u>Contract Term</u> | <u>Program Award</u> | <u>Program Expenditure</u> |
|--|----------------------------------|--|---|---|
| States Awards | | | | |
| The State Bar of California – Equal Access Fund Domestic Violence Prevention Project – Regional Total The State Bar of California – Equal Access Fund | Program 93 | 10/01/2014-12/31/2015 | \$ 309,961 <u>309,961</u> | \$ 247,969 <u>247,969</u> |
| The State Bar of California – Equal Access Fund Partnership Grants San Mateo Consumer Debt Clinic Contra Costa County Housing Law Clinic Total The State Bar of California – Equal Access Fund Partnership Grant | Program 93 Program 93 | 01/01/2015-12/31/2015 01/01/2015-12/31/2015 | 60,000 55,000 <u>115,000</u> | 42,749 55,000 <u>97,749</u> |
| Alameda County Behavioral Health Care Services Alameda County SSI and SSDI Appeals Advocacy Services Projects Alameda County SSI and SSDI Appeals Advocacy Services Projects Total Alameda County Behavioral Health Care Services | 900154/PC10153 900154/PC11593 | 07/1/2014-06/30/2015 07/1/2015-06/30/2016 | 586,400 586,400 <u>1,172,800</u> | 322,035 306,685 <u>628,720</u> |
| Superior Court of California Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic Total Superior Court of California | 41-15D008 41-16D004 | 07/1/2014-06/30/2015 07/1/2015-06/30/2016 | 10,000 10,000 <u>20,000</u> | 5,000 5,000 <u>10,000</u> |
| Covered California - California Health Benefit Exchange Pass-through, Legal Aid Society of San Diego, Regional Health Access and Affordable Care Act Implementation Pass-through, Legal Aid Society of San Diego, Regional Health Access-Covered California Total Covered California | 12-E9069 15-CO16 | 05/13/2013-6/30/2015 07/01/2015-06/30/2016 | 448,125 140,418 <u>588,543</u> | 58,013 14,695 <u>72,708</u> |
| State of California Managed Care Funds Pass-through, State of California of Managed Health Care ("DMHC") Consumer Assistance Program – Regional Total State of California Managed Care Funds | 14MC-SA005 | 01/17/2015-11/30/2016 | 736,994 <u>736,994</u> | 389,903 <u>389,903</u> |
| Alameda County Social Services Agency SSI/SSP or CAPI Benefits Support Services for CalWORKS Total Alameda County SSA | 900154/PO11497 | 07/1/2014-06/30/2015 | 56,100 <u>56,100</u> | 11,759 <u>11,759</u> |
| Department of Managed Health Care Pass-through, Legal Aid Society of San Diego, CCI Ombudsman – Cal MediConnect Total Department of Managed Health Care | MOU | 07/1/2014-08/31/2016 | 181,107 <u>181,107</u> | 98,403 <u>98,403</u> |
| California Emergency Management Agency Pass-through, Standl For Families Free of Violence, Domestic Violence Pro Per Clinics Pass-through, Standl For Families Free of Violence, Domestic Violence Pro Per Clinics Total California Emergency Management Agency | DVAP 14-15 DVAP 15-16 | 07/1/2014-06/30/2015 07/1/2014-06/30/2015 | 20,000 20,000 <u>40,000</u> | 12,354 13,943 <u>26,297</u> |
| Total State Awards | | | \$ 3,220,505 <u><u>\$ 3,220,505</u></u> | \$ 1,583,508 <u><u>\$ 1,583,508</u></u> |

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2015

| Program Name | Contract Number | Federal CFDA No. | Contract Term | Program Award | Program Expenditure |
|---|------------------------|-------------------------|-----------------------|----------------------|----------------------------|
| Federal Awards | | | | | |
| Legal Services Corporation ("LSC") pass-through program: | | | | | |
| Civil Legal Services Program (a) | CA-28 | 09.805270 | 01/01/2014-12/31/2014 | \$ 4,203,084 | \$ 4,203,084 |
| Technology Initiative Grant (TIG) (a) | TIG 14028 | 09.805270 | 10/01/2014-09/30/2016 | 114,334 | 45,173 |
| Pro Bono Innovation Grant (a) | PB15073 | 09.805270 | 10/01/2015-09/30/2017 | 280,111 | 1,257 |
| Total LSC pass-through | | | | 4,597,529 | 4,249,514 |
| 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) | FH700G13055 | 14.218 | 04/1/2014-03/31/2015 | 325,000 | 88,351 |
| Fair Housing Initiative Program (FHIP) | FH700G13055 | 14.218 | 04/1/2015-03/31/2016 | 325,000 | 229,849 |
| Sub-total direct from HUD - FHIP | | | | 650,000 | 318,200 |
| Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG) | | | | | |
| Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG) | 14-01-PS | 14.218 | 07/01/2014-06/30/2015 | 55,000 | 27,009 |
| Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG) | 15-01-PS | 14.218 | 07/01/2015-06/30/2016 | 55,000 | 30,344 |
| Pass-through Contra Costa County-Home Equity Preservation Alliance (CDBG) | MOU | 14.218 | 07/01/2014-06/30/2015 | 8,000 | 3,809 |
| Pass-through Contra Costa County-Home Equity Preservation Alliance (CDBG) | MOU | 14.218 | 07/01/2015-06/30/2016 | 8,000 | 8,000 |
| Sub-total pass-through, Contra Costa County | | | | 126,000 | 69,162 |
| Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG) | | | | | |
| Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG) | | 14.218 | 07/1/2014-06/30/2015 | 10,000 | 2,523 |
| Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG) | | 14.218 | 07/1/2015-06/30/2016 | 15,000 | 12,058 |
| Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG) | | 14.218 | 07/1/2014-06/30/2015 | 20,000 | 11,049 |
| Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG) | | 14.218 | 07/1/2015-06/30/2016 | 20,000 | 9,871 |
| Sub-total pass-through, City of Antioch | | | | 65,000 | 35,501 |
| Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG) | | | | | |
| Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG) | PO13506 | 14.218 | 07/1/2014-06/30/2015 | 9,930 | 3,272 |
| Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG) | PO14254 | 14.218 | 07/1/2015-06/30/2016 | 9,910 | 6,971 |
| Sub-total pass-through, City of Concord | | | | 19,840 | 10,243 |
| Pass-through, City of San Francisco-Legal Safety Net Project/Subsided Housing Advocacy (CDBG) | | | | | |
| Pass-through, City of San Francisco-Legal Safety Net Project/Subsided Housing Advocacy (CDBG) | 40537 | 14.218 | 07/01/2014-06/30/2015 | 65,000 | 42,950 |
| Pass-through, City of San Francisco-Domestic Violence Legal Services (CDBG) | 73600-15 | 14.218 | 07/1/2015-06/30/2016 | 100,000 | 62,500 |
| Sub-total pass-through, City of San Francisco | | | | 165,000 | 105,450 |
| Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG) | | | | | |
| Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG) | 79000-13-D001 | 14.218 | 07/1/2014-06/30/2015 | 25,000 | 4,884 |
| Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG) | 79000-15-D001 | 14.218 | 07/1/2015-06/30/2016 | 25,000 | 16,019 |
| Sub-total pass-through, County of San Mateo | | | | 50,000 | 20,903 |
| Total HUD | | | | 1,075,840 | 589,459 |
| 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) | | | | | |
| Pass-through, State of California Community Services Block Grant (CSBG) to City of Oakland, Oakland Community Action Partnership (OCAP) | 15F-2002 | 93.569 | 01/01/2015-12/31/2015 | 20,000 | 20,000 |
| Pass-through, City of Oakland, Temporary Assistance for Needy Families - SSI Advocacy | | | | | |
| Pass-through, City of Oakland, Temporary Assistance for Needy Families - SSI Advocacy | 900154/PO#11497 | 93.558 | 07/01/2014-06/30/2015 | 56,100 | 11,759 |
| Pass-through, City of Oakland, Temporary Assistance for Needy Families - SSI Advocacy | 900154/PO#13218 | 93.558 | 07/01/2015-06/30/2016 | 57,783 | 35,991 |
| Sub-total pass-through, City of Oakland | | | | 133,883 | 67,750 |
| Pass-through, Alameda County, Health Care Services Agency | | | | | |
| Pass-through, Alameda County, Health Care Services Agency | 08-85116 | 93.778 | 07/01/2012-06/30/2013 | - | 25,337 |
| Pass-through, Alameda County, Health Care Services Agency | 13-90009 | 93.778 | 07/01/2013-06/30/2014 | - | 226,388 |
| Pass-through, Alameda County, Medical Assistance Program | 13-90009 | 93.778 | 07/01/2014-06/30/2015 | - | 141,759 |
| Sub-total pass-through, Alameda County | | | | - | 393,484 |
| Pass-through, Contra Costa County, Employment & Human Services - Legal Safety Net Project (CSBG) | | | | | |
| 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 | 2,700 |
| Pass-through, Contra Costa County, Employment & Human Services - Legal Safety Net Project (CSBG) | 38-384-5 | 93.569 | 04/01/2015-12/31/2015 | 24,286 | 24,286 |
| Sub-total pass-through, Contra Costa County | | | | 43,986 | 26,986 |
| Pass through, Rubicon Programs Inc., Responsible Fatherhood Ex-Prisoner Reentry Program | | | | | |
| Pass through, Rubicon Programs Inc., Responsible Fatherhood Ex-Prisoner Reentry Program | MOU | 93.086 | 09-30/2014-09/29/2015 | 15,000 | 6,551 |
| Sub-total pass-through, Rubicon Programs Inc. | | | | 15,000 | 6,551 |
| Pass-through, Alameda County, Behavioral Health Care Srv, AL County SSI & SSDI Appeals Advocacy Srv PRJ BHCS Legal Pilot | | | | | |
| Pass-through, Alameda County, Behavioral Health Care Srv, AL County SSI & SSDI Appeals Advocacy Srv PRJ BHCS Legal Pilot | 900154 | 93.958 | 04/17/2014-6/30/2015 | 24,950 | 22,945 |
| Pass-through, Alameda County, Behavioral Health Care Srv, AL County SSI & SSDI Appeals Advocacy Srv PRJ BHCS Legal Pilot | 900154 | 93.958 | 07/1/2015-6/30/2016 | 24,950 | 17,751 |
| Sub-total pass-through, Alameda County | | | | 49,900 | 40,696 |
| Total DHHS | | | | 242,769 | 535,467 |

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2015
continued

| <u>Program Name</u> | <u>Contract Number</u> | <u>Federal CFDA No.</u> | <u>Contract Term</u> | <u>Program Award</u> | <u>Program Expenditure</u> |
|--|------------------------|-------------------------|-----------------------|----------------------|----------------------------|
| Federal Awards | | | | | |
| 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 | 83,521 |
| 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 | 100,277 |
| Directly from Office on Violence Against Women (OVW), Legal Assistance to Victims (LAV) Program | 2012-WL-AX-0019 | 16.524 | 10/01/2015-09/31/2018 | 600,000 | 50,000 |
| Directly from Office on Victims of Crime Santa Clara trafficking | 2015-VT-BX-K031 | 16320 | 10/01/2015-09/31/2018 | 54,818 | 44 |
| Pass through, Contra Costa County, Grant to Encourage Arrests (GTEA) | 19-643-0 | 16.590 | 01/01/2015-12/31/2015 | 28,333 | 28,334 |
| Pass through, Office of Juvenile Justice and Delinquency Prevention, City of Oakland Second Chance Juvenile Reentry | 45327-4 | 16.812 | 01/01/2014-12/31/2015 | 55,000 | 15,000 |
| Pass through, Office of Justice Programs' Bureau of Justice Assistance, Contra Costa County Second Chance Act Prisoner Reentry Initiative | F45327 | 16.812 | 07/01/2014-6/30/2015 | 35,000 | 20,688 |
| Total DOJ | | | | <u>1,673,151</u> | <u>297,864</u> |
| U.S. Department of Veterans Affairs ("DVA") | | | | | |
| Pass through, Abode Service, Supportive Services to Veteran and their Families (SSVF) Program | MOU | 64.033 | 10/01/2015-12/31/2015 | 75,000 | 75,000 |
| Pass through, East Oakland Community Project, Oakland Together for Veterans Collaborative Program | MOU | 64.033 | 10/01/2015-12/31/2016 | 70,958 | 58,535 |
| Pass through, East Oakland Community Project, Oakland Together for Veterans Collaborative Program | MOU | 64.033 | 10/01/2015-11/31/2016 | 46,375 | 6,635 |
| Pass through, Shelter Inc., Supportive Services for Veteran Families (SSVF) Program | MOU | 64.033 | 10/01/2014-09/30/2015 | 42,441 | 25,707 |
| Pass through, Shelter Inc., Supportive Services for Veteran Families (SSVF) Program | MOU | 64.033 | 10/01/2015-09/30/2016 | 21,721 | 5,603 |
| Total DVA | | | | <u>256,495</u> | <u>171,480</u> |
| Total Federal Awards | | | | <u>\$ 7,845,784</u> | <u>\$ 5,813,784</u> |

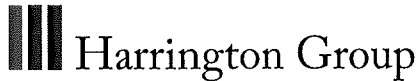
(a) Audited as major program

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:

| <u>Agency</u> | <u>Federal CFDA No.</u> | <u>Amount Provided</u> |
|--|-------------------------|------------------------|
| CA Partnership to End Domestic Violence | 16.524 | \$ 3,259 |
| Canal Alliance | 16.524 | 5,609 |
| Cooperative Restraining Order Clinic | 16.524 | 13,897 |
| Eden Council for Hope and Opportunity | 14.218 | 25,166 |
| General Assistance Advocacy Project | 16.524 | 4,500 |
| International Institute of the Bay Area | 16.524 | 7,636 |
| Legal Aid Napa Valley | 16.524 | 13,533 |
| Total Federal | | <u>73,690</u> |
| State and Local Grants | | |
| Justice in Aging | | 2,863 |
| Legal Aid Society of San Mateo County | | 45,139 |
| Rubicon Programs, Inc. | | 8,394 |
| BASF-SF Eviction Represent Collaborative | | 130,787 |
| Legal Assistance to the Elderly | | 125,460 |
| | | <u>312,643</u> |
| Total | | <u>\$ 386,333</u> |

ADDITIONAL INFORMATION



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, 2015, 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 30, 2016.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
wPerformed in Accordance With *Government Auditing Standards***

continued

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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
March 30, 2016



Certified Public Accountants, LLP

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by Uniform Guidance**

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 Compliance Supplement* that could have a direct and material effect on each of BayLegal's major federal programs for the year ended December 31, 2015. BayLegal's major federal programs are identified in the summary of auditors' 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; and the audit requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement For Federal Awards* (Uniform Guidance) and Compliance Supplement for Audits of Legal Services Corporation Recipients. Those standards, the Uniform Guidance and Compliance Supplement for Audits of Legal Services Corporation 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, 2015.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BayLegal's internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
March 30, 2016

BAY AREA LEGAL AID
Schedule of Findings and Questioned Costs
For the year ended December 31, 2015

Section I – Summary of Auditors’ Results

Financial Statements:

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

Federal Awards:

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 the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No*

Identification of Major Programs:

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 the Uniform Guidance.

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”.