

BAY AREA LEGAL AID

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

DECEMBER 31, 2016 and 2015

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-15
Supplemental Schedules:	
Schedule of Private Attorney Involvement (PAI) Compliance	16
Schedule of Support, Revenue, Expenses, and Changes in Net Assets for Legal Services Corporation Funds	17
Schedule of Expenditures of State Awards	18
Schedule of Expenditures of Federal Awards	19-21
Additional Information:	
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 <i>Government Auditing Standards</i>	22-23
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	24-25
Schedule of Findings and Questioned Costs	26

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, 2016 and 2015, 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.

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, 2016 and 2015, 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued 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, 2017

BAY AREA LEGAL AID

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,382,240	\$ 591,096
Cash held in trust	33,794	29,920
Grants receivable	1,575,297	1,346,089
Pledges receivable (Note 3)	460,607	392,260
Prepaid expenses	13,894	32,586
Other assets	115,279	124,397
Investments (Note 4)	2,292,938	2,182,670
Property and equipment (Note 5)	6,785,653	6,157,342
TOTAL ASSETS	<u><u>\$ 12,659,702</u></u>	<u><u>\$ 10,856,360</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 218,055	\$ 154,101
Accrued liabilities (Note 6)	899,749	748,697
Deferred revenue	667,164	457,554
Notes payable (Note 7)	5,119,467	3,917,657
TOTAL LIABILITIES	<u>6,904,435</u>	<u>5,278,009</u>
NET ASSETS		
Unrestricted	3,210,785	3,303,812
Unrestricted - property and equipment (Note 2)	2,451,328	2,202,023
Temporarily restricted (Note 9)	93,154	72,516
TOTAL NET ASSETS	<u>5,755,267</u>	<u>5,578,351</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,659,702</u></u>	<u><u>\$ 10,856,360</u></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, 2016 and 2015

	December 31, 2016			December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Government contracts (Note 10)	\$ 6,194,612	\$ 4,330,760	\$ 10,525,372	\$ 5,071,500	\$ 4,248,257	\$ 9,319,757
Donated services (Note 11)	2,877,494		2,877,494	4,217,754		4,217,754
Contributions	946,302		946,302	737,846		737,846
Other revenue	351,042		351,042	184,479		184,479
Grants		1,613,028	1,613,028		1,093,588	1,093,588
Attorney fees	156,276	287	156,563	445,718	10,000	455,718
Rental income	79,112		79,112	87,790		87,790
Interest and dividends	924	221	1,145	2,971	1,121	4,092
Gain (loss) on investments	108,174		108,174	(15,416)		(15,416)
Net assets released from program restrictions	5,923,658	(5,923,658)	-	5,336,248	(5,336,248)	-
TOTAL REVENUE AND SUPPORT	16,637,594	20,638	16,658,232	16,068,890	16,718	16,085,608
EXPENSES						
Program services	14,529,661		14,529,661	14,107,198		14,107,198
Support services	1,452,800		1,452,800	1,395,850		1,395,850
Fundraising	498,855		498,855	568,667		568,667
TOTAL EXPENSES	16,481,316	-	16,481,316	16,071,715	-	16,071,715
CHANGE IN NET ASSETS FROM OPERATIONS	156,278	20,638	176,916	(2,825)	16,718	13,893
OTHER CHANGES						
Gain on acquisition of Legal Aid of Napa Valley			-	73,494		73,494
CHANGE IN NET ASSETS	156,278	20,638	176,916	70,669	16,718	87,387
NET ASSETS, BEGINNING OF YEAR	5,505,835	72,516	5,578,351	5,435,166	55,798	5,490,964
NET ASSETS, END OF YEAR	\$ 5,662,113	\$ 93,154	\$ 5,755,267	\$ 5,505,835	\$ 72,516	\$ 5,578,351

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, 2016 and 2015

	December 31, 2016				December 31, 2015			
	Program Services	Support Services	Fundraising	Total Expenses	Program Services	Support Services	Fundraising	Total Expenses
Salaries and wages	\$ 6,857,940	\$ 989,447	\$ 288,545	\$ 8,135,932	\$ 5,784,893	\$ 918,672	\$ 348,286	\$ 7,051,851
Employee benefits	1,112,742	160,544	46,818	1,320,104	996,836	158,303	60,016	1,215,155
Payroll taxes	575,592	83,045	24,218	682,855	472,946	75,106	28,474	576,526
Total personnel costs	8,546,274	1,233,036	359,581	10,138,891	7,254,675	1,152,081	436,776	8,843,532
Donated services (Note11)	2,877,494			2,877,494	4,217,754			4,217,754
Occupancy	871,466	78,661	46,271	996,398	808,965	92,991	46,471	948,427
Subgrants	547,225			547,225	386,333			386,333
Depreciation	356,401	32,170	18,923	407,494	323,060	37,116	18,558	378,734
Professional Fees	308,443	27,841	16,377	352,661	251,837	24,562	12,281	288,680
Equipment rental and maintenance	185,375	16,732	9,843	211,950	152,480	17,518	8,759	178,757
Telephone	156,192	14,098	8,293	178,583	127,855	14,689	7,345	149,889
Supplies	104,786	9,458	5,564	119,808	90,851	10,438	5,219	106,508
Training	91,801	8,286	4,874	104,961	72,604	8,341	4,171	85,116
Travel	80,218	7,241	4,259	91,718	65,042	7,473	3,736	76,251
Library	79,841			79,841	63,381	7,282	3,641	74,304
Insurance	65,893	5,948	3,499	75,340	49,348	5,670	2,835	57,853
Dues and fees	59,543	5,374	3,161	68,078	52,564			52,564
Audit	35,412	3,196	1,880	40,488	36,308	4,171	2,086	42,565
Printing and copying	33,307	3,006	1,768	38,081	29,002	3,332	1,666	34,000
Recruiting, staff relations, and strategic planning	31,756	2,866	1,686	36,308	25,892	2,975	1,487	30,354
Work study/law students	30,466			30,466	24,041	2,701	1,381	28,123
Postage and delivery	24,013	2,168	1,275	27,456	23,153	2,660	1,330	27,143
Litigation	23,634			23,634	24,802			24,802
Advertising and public relations	6,153	1,458	10,858	18,469	21,147			21,147
Miscellaneous	13,968	1,261	743	15,972	6,104	1,850	10,925	18,879
TOTAL FUNCTIONAL EXPENSES	\$ 14,529,661	\$ 1,452,800	\$ 498,855	\$ 16,481,316	\$ 14,107,198	\$ 1,395,850	\$ 568,667	\$ 16,071,715

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 176,916	\$ 87,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	407,494	378,734
Reinvested interest and dividends	(1,107)	(3,185)
Unrealized (gain) loss on investments	(108,174)	15,416
(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	(3,874)	47,428
Grants receivable	(229,208)	(346,710)
Pledges receivable	(68,347)	(26,144)
Prepaid expenses	18,692	12,235
Other assets	9,118	(50,028)
Increase (decrease) in operating liabilities:		
Accounts payable	63,954	(6,069)
Accrued liabilities	151,052	(3,897)
Deferred revenue	209,610	132,715
	626,126	256,919
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FORM INVESTING ACTIVITIES:		
Sale of investments	11,251	1,501,603
Purchase of investments	(12,238)	(2,217,049)
Purchase of property and equipment	(64,281)	(213,861)
	(65,268)	(929,307)
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Borrowings	433,435	-
Principal payments on notes payable	(203,149)	(125,683)
	230,286	(125,683)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	791,144	(798,071)
CASH, BEGINNING OF YEAR	591,096	1,389,167
CASH, END OF YEAR	\$ 1,382,240	\$ 591,096
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	\$ 231,956	\$ 209,484
Non-cash transactions:		
Property and equipment acquired with notes payable	\$ 971,524	\$ -
Net property and equipment acquired in acquisition of Legal Aid Napa Valley	\$ -	\$ (3,630)
Other asset acquired in acquisitions of Legal Aid Napa Valley	\$ -	\$ (2,000)
Accounts payable acquired in acquisition of Legal Aid Napa Valley	\$ -	\$ 24,667

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, 2016 and 2015.

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 these 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, 2016 and 2015 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, 2017, 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, 2016 and 2015 of \$460,607 and \$392,260, respectively, are expected to be collected within one year.

4. Investments

Investments at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 722,950	\$ 701,094
Bond funds	637,842	627,899
Exchange traded	657,183	609,310
Mutual fund	273,978	233,633
Equities	<u>985</u>	<u>10,734</u>
	<u>\$2,292,938</u>	<u>\$2,182,670</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, 2016 and 2015 consist of the following:

December 31, 2016

	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Building	\$ 6,228,733	\$ -	\$ 6,228,733
Furniture and equipment	1,833,062	11,376	1,844,438
Land	1,249,500		1,249,500
Computer equipment	766,906	68,960	835,866
Leasehold improvements	1,398,594		1,398,594
Law library	186,485		186,485
Software	108,260		108,260
	<u>11,771,540</u>	<u>80,336</u>	<u>11,851,876</u>
Less: accumulated depreciation	<u>(5,002,555)</u>	<u>(63,668)</u>	<u>(5,066,223)</u>
	<u>\$ 6,768,985</u>	<u>\$ 16,668</u>	<u>\$ 6,785,653</u>

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	108,260		108,260
	<u>10,735,734</u>	<u>80,336</u>	<u>10,816,070</u>
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>

6. Accrued Liabilities

Accrued liabilities at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Accrued vacation	\$473,785	\$433,653
Accrued salaries	373,477	254,433
Client trust fund	33,794	29,920
Other accrued liabilities	18,693	30,691
	<u>\$899,749</u>	<u>\$748,697</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

7. Notes Payable

Notes payable at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</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.	\$3,636,467	\$3,763,144
Note payable to a bank, secured by a deed of trust and assignment of all rents on real property in Alameda County, California, interest at 5.00%, monthly payments of \$14,248, due May 2023.	933,583	-
Note payable to a corporation, secured by a first deed of trust, interest at 2.50%, quarterly payments of \$15,617, due February 2023.	400,000	-
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>149,417</u>	<u>154,513</u>
	<u>\$5,119,467</u>	<u>\$3,917,657</u>

Maturities for notes payable are as follows:

<u>Year ended December 31,</u>	
2017	\$ 362,794
2018	338,498
2019	486,601
2020	364,537
2021	382,326
Thereafter	<u>3,184,711</u>
	<u>\$5,119,467</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:

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies, continued

<u>Year ended December 31,</u>	
2017	\$ 739,451
2018	753,409
2019	764,731
2020	724,684
2021	705,440
Thereafter	<u>2,635,403</u>
	<u>\$6,323,118</u>

Rent expense under operating leases for the years ended December 31, 2016 and 2015 was \$645,346 and \$663,720, respectively.

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, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Non - LSC	<u>\$76,486</u>	<u>\$34,856</u>
Property purchased with funds from LSC	<u>16,668</u>	<u>37,660</u>
	<u>\$93,154</u>	<u>\$72,516</u>

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

10. Government Contracts

Government contracts for the years ended December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Legal Service Corporation	\$ 4,330,760	\$4,203,084
Other	1,147,515	1,099,848
Alameda County Behavioral Health Care Services	1,037,466	669,416
San Francisco Mayor's Office of Housing and Community Development	933,194	734,589
State of California, Department of Managed Health Care	399,665	389,903
Equal Access Funds	378,929	345,610
Alameda County CalWORKs/SSA	373,894	59,510
U.S. Department of Housing and Urban Development	365,062	318,200
U.S. Department of Justice	337,608	233,842
Alameda County Health Care Services Agency	328,706	393,484
San Francisco Department of Human Services	294,478	373,369
County of San Francisco, Dept. on the Status of Women	224,306	233,738
IOLTA	221,650	192,457
California Health Benefit Exchange	<u>152,139</u>	<u>72,707</u>
	<u>\$10,525,372</u>	<u>\$9,319,757</u>

11. Donated Services

BayLegal has received significant contributions of non-cash services for the years ended December 31, 2016 and 2015, which is summarized below.

	<u>2016</u>	<u>2015</u>
Contributed services	<u>\$2,877,494</u>	<u>\$4,217,754</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 \$215,614 and \$236,678 for the years ended December 31, 2016 and 2015, respectively.

continued

BAY AREA LEGAL AID

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements

The table below present transactions measured at fair value during the years ended December 31, 2016 and 2015 on a recurring:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2016</u>				
Bond funds	\$ 637,842	\$ -	\$ -	\$ 637,842
Exchange traded products	657,183			657,183
Mutual funds	273,978			273,978
U.S. equity funds	985			985
	<u>\$1,569,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,569,988</u>
 <u>December 31, 2015</u>				
Bond funds	\$ 627,899	\$ -	\$ -	\$ 627,899
Exchange traded products	609,310			609,310
Mutual funds	233,633			233,633
U.S. equity funds	10,734			10,734
	<u>\$1,481,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,481,576</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).

The table below present transactions measured at fair value during the years ended December 31, 2016 and 2015 on a non-recurring:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2016</u>				
Contributed services	\$ -	\$2,877,494	\$ -	\$2,877,494
Pledged contributions – current year			460,607	460,607
	<u>\$ -</u>	<u>\$2,877,494</u>	<u>\$460,607</u>	<u>\$3,338,101</u>
 <u>December 31, 2015</u>				
Contributed services	\$ -	\$4,217,754	\$ -	\$4,217,754
Pledged contributions – current year			392,261	392,261
	<u>\$ -</u>	<u>\$4,217,754</u>	<u>\$392,261</u>	<u>\$4,610,015</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).

SUPPLEMENTAL SCHEDULES

BAY AREA LEGAL AID

SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT (PAI) COMPLIANCE

For the year ended December 31, 2016

Support

Basic grant = \$4,087,740 x 12.5%	\$	510,968
Total support		<u>510,968</u>

Expenses

Personnel cost		
Salaries		
Attorneys		566,952
Clerical and other		38,249
Paralegals		7,190
		<u>612,391</u>
Employee benefits		99,391
Payroll taxes		51,380
Total personnel costs		<u>763,162</u>

Non-personnel

Rents		74,529
Equipment rental and maintenance		16,092
Telephone		12,017
Supplies and printing		10,001
Library		7,694
Insurance		6,938
Training, meetings, and conferences		5,497
Audit		3,780
Postage		3,535
Dues		3,144
Work study/law students		2,791
Litigation		2,604
Recruitment		2,123
Travel		374
Miscellaneous		266
Total non-personnel		<u>151,385</u>

Total expenses		<u>914,547</u>
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Net PAI expenses over the requirement threshold	\$	<u>(403,579)</u>
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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, 2016

	Basic Field Grant	Technology	ProBono Innovation Award	Duane Veith Award	Property	Total
Revenue and support						
Government contracts	\$ 4,087,740	\$ 66,210	\$ 166,810	\$ 10,000	\$ -	\$ 4,330,760
Attorneys fees	287					287
Interest	221					221
Total revenue and support	<u>4,088,248</u>	<u>66,210</u>	<u>166,810</u>	<u>10,000</u>	<u>-</u>	<u>4,331,268</u>
Expenses						
Salaries and wages	2,313,049	3,951	111,215			2,428,215
Employee benefits	375,306	628	18,065			393,999
Payroll taxes	194,136	325	9,034			203,495
Total personnel costs	<u>2,882,491</u>	<u>4,904</u>	<u>138,314</u>	<u>-</u>	<u>-</u>	<u>3,025,709</u>
Rents	492,639		2,362			495,001
Professional fees	160,542	57,578				218,120
Equipment rental and maintenance	112,470					112,470
Telephone	67,392					67,392
Supplies and printing	64,407					64,407
Insurance	54,681					54,681
Training, meetings, and conferences	35,401	622	2,854	9,381		48,258
Travel	45,037		5			45,042
Library	39,550					39,550
Audit	24,340					24,340
Postage	22,768					22,768
Computers, furniture, and equipment	21,164					21,164
Depreciation					20,992	20,992
Dues	20,250					20,250
Work study/law students	17,974					17,974
Litigation	16,767					16,767
Recruitment	8,670					8,670
Miscellaneous	1,705					1,705
Total expenses	<u>4,088,248</u>	<u>63,104</u>	<u>143,535</u>	<u>9,381</u>	<u>20,992</u>	<u>4,325,260</u>
Changes in net assets before other changes	-	3,106	23,275	619	(20,992)	6,008
Other changes						
Acquisition of property						-
Changes in net assets after other changes	-	3,106	23,275	619	(20,992)	6,008
Net assets, beginning of year		5,525			37,660	43,185
Net assets, end of year	<u>\$ -</u>	<u>\$ 8,631</u>	<u>\$ 23,275</u>	<u>\$ 619</u>	<u>\$ 16,668</u>	<u>\$ 49,193</u>

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended December 31, 2016

<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	Program 93	10/01/2016-12/31/2016	\$ 254,890	\$ 254,890
Total The State Bar of California – Equal Access Fund			<u>254,890</u>	<u>254,890</u>
The State Bar of California – Equal Access Fund Partnership Grants:				
San Mateo Consumer Debt Clinic	Program 93	01/01/2016-12/31/2016	40,000	40,000
Contra Costa County Housing Law Clinic	Program 93	01/01/2016-12/31/2016	59,250	59,039
Total The State Bar of California – Equal Access Fund Partnership Grant			<u>99,250</u>	<u>99,039</u>
Alameda County Behavioral Health Care Services:				
Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PC11593	07/01/2015-06/30/2016	1,029,733	440,147
Alameda County SSI and SSDI Appeals Advocacy Services Projects	900154/PC13438	07/01/2016-06/30/2017	1,246,400	576,644
Total Alameda County Behavioral Health Care Services			<u>2,276,133</u>	<u>1,016,791</u>
Superior Court of California:				
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-16-D004	07/01/2015-06/30/2016	10,000	5,000
Pass-through, County of San Mateo – Domestic Violence Protective Order Clinic	41-17-D004	07/01/2016-06/30/2017	10,000	5,000
Total Superior Court of California			<u>20,000</u>	<u>10,000</u>
State of California Managed Care Funds:				
Pass-through, State of California of Managed Health Care (DMHC), Regional Health Care Access	14MC-SA005	01/17/2015-11/30/2016	736,994	347,091
Pass-through, State of California of Managed Health Care (DMHC), Regional Health Care Access	16MC-SA016	12/01/2016-11/30/2018	850,000	52,574
Total Covered California			<u>1,586,994</u>	<u>399,665</u>
Alameda County Social Services Agency:				
SSI/SSP or CAPI Benefits Support Services for CalWORKS	900154/PO14233	07/01/2016-06/30/2017	810,000	76,036
Total State of California Managed Care Funds			<u>810,000</u>	<u>76,036</u>
Department of Managed Health Care:				
Pass-through, Legal Aid Society of San Diego, CCI Ombudsman – Cal MediConnect	MOU	09/01/2015-8/31/2016	181,107	62,866
Pass-through, Legal Aid Society of San Diego, CCI Ombudsman – Cal MediConnect	MOU	10/01/2016-12/31/2017	102,613	21,129
Total Department of Managed Health Care			<u>283,720</u>	<u>83,995</u>
California Emergency Management Agency:				
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics		07/01/2015-06/30/2016	20,000	7,057
Pass-through, Stand! For Families Free of Violence, Domestic Violence Pro Per Clinics		07/01/2016-06/30/2017	20,000	17,661
Total California Emergency Management Agency			<u>40,000</u>	<u>24,718</u>
Total State Awards			<u>\$ 5,370,987</u>	<u>\$ 1,965,134</u>

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2016

<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>	<u>Pass-through to Sub-recipients</u>
Federal Awards						
Legal Services Corporation ("LSC"), direct:						
Basic Field Grant (a)	CA-28	09.805270	01/01/2016-12/31/2016	\$ 4,087,740	\$ 4,087,740	\$ -
Pro Bono Innovation Grant (a)	PB15073	09.805270	10/01/2015-09/30/2017	280,111	166,810	
Technology Initiative Grant (TIG) (a)	TIG 14028	09.805270	10/01/2014-09/30/2016	114,334	45,174	
Technology Initiative Grant (TIG) (a)	TIG 14026	09.805270	10/01/2014-09/30/2016	53,990	21,036	
Legal Service Corporation-Duane Vieth Award (a)	805270	09.805270	09/01/2016-08/31/2017	10,000	10,000	
Total LSC				4,546,175	4,330,760	-
U.S. Department of Housing and Urban Development ("HUD"):						
Community Development Block Grant:						
Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG)	15-01-PS	14.218	07/01/2015-06/30/2016	55,000	24,656	663
Pass-through Contra Costa County-Fair Housing & Eviction Prevention Program (CDBG)	16-01-PS	14.218	07/01/2016-06/30/2017	80,000	49,909	3,047
Pass-through Contra Costa County-Housing Services Collaborative-Fair Housing (CDBG)	MOU	14.218	07/01/2015-06/30/2016	40,000	13,429	12,413
Pass-through Contra Costa County-Home Equity Preservation Alliance (CDBG)	MOU	14.218	07/01/2016-06/30/2017	8,000	4,063	
Sub-total pass-through, Contra Costa County				183,000	92,057	16,123
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG)		14.218	07/1/2015-06/30/2016	15,000	2,942	684
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Tenant Landlord (CDBG)		14.218	07/1/2016-06/30/2017	15,000	6,714	1,545
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG)		14.218	07/1/2015-06/30/2016	25,000	15,129	9,212
Pass-through, City of Antioch-Contra Costa County Housing Services Collaborative - Fair Housing (CDBG)		14.218	07/1/2016-06/30/2017	25,000	12,717	10,380
Sub-total pass-through, City of Antioch				80,000	37,502	21,821
Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG)	PO13506	14.218	07/1/2014-06/30/2015	10,000	3,029	
Pass-through, City of Concord-Housing Services Collaborative-Tenant Landlord (CDBG)	PO14254	14.218	07/1/2015-06/30/2016	10,000	5,690	
Sub-total pass-through, City of Concord				20,000	8,719	-
Pass-through, City of Concord, Department of Housing and Urban Development:						
Fair Housing Initiative Program	FH700G13055	14.410	04/01/2015-03/31/2016	325,000	95,151	
Fair Housing Initiative Program	FH700G13055	14.410	04/01/2014-03/31/2016	325,000	269,911	
Sub-total pass-through, City of Concord				650,000	365,062	-
Pass-through, City of San Francisco-Legal Safety Net Project/Subsized Housing Advocacy (CDBG)	40537	14.218	07/01/2015-06/30/2016	100,000	37,500	
Pass-through, City of San Francisco-Domestic Violence Legal Services (CDBG)	73600-15	14.218	07/1/2016-06/30/2017	100,000	55,974	
Sub-total pass-through, City of San Francisco				200,000	93,474	-
Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG)	79000-13-D001	14.218	07/1/2015-06/30/2016	22,825	6,806	
Pass-through, City of San Mateo Domestic Violence Legal Services (CDBG)	79000-15-D001	14.218	07/1/2016-06/30/2017	23,500	15,878	
Sub-total pass-through, County of San Mateo				46,325	22,684	-
Total HUD				1,179,325	619,498	37,944
HIV Care Formula Grant:						
Pass-through, Department of Mental Health:						
Ryan White HIV Care Grant	FH700G13055	93.917	03/01/2016-02/28/2017	24,000	20,592	
Total Ryan White HIV Program				24,000	20,592	-

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2016

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>	<u>Pass-through to Sub-recipients</u>
Federal Awards						
U.S. Department of Health and Human Services ("DHHS"):						
Community Services Block Grant:						
Pass-through, City of Oakland, Oakland Community Action Partnership (OCAP)	15F-5002	93.569	01/01/2016-12/31/2016	30,000	30,000	
Pass-through, Contra Costa County, Employment & Human Services - Legal Safety Net Project (CSBG)	38-384-6	93.569	03/01/2016-02/28/2017	25,000	25,000	
Temporary Assistance for Needy Families:						
Pass-through, City of Oakland, SSI Advocacy	900154/PO#14233	93.558	07/01/2016-06/30/2017	310,000	134,855	
Pass-through, San Francisco Human Services Agency, SSI Advocacy	900154/PO#14233	93.558	07/01/2016-06/30/2017	180,697	65,558	
Pass-through, City of Oakland, SSI Advocacy	900154/PO#13218	93.558	06/01/2016-07/30/2017	57,783	21,792	
Sub-total pass-through, City of Oakland				548,480	222,205	-
Medical Assistance Program:						
Pass-through, Alameda County, Health Care Services Agency	900154/P014233	93.778	07/01/2012-06/30/2013	250,000	108,624	
Pass-through, Alameda County, Health Care Services Agency	13-90009	93.778	07/01/2013-06/30/2014		147,578	
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				250,000	397,961	-
State Planning and Establishment Grants for the Affordable Care Act:						
Pass through, Legal Aid of Society of San Diego	MOU	93.525	07/01/2016-06/30/2017	75,592	26,415	
Sub-total pass-through, Regional Health Care Access-Covered CA				75,592	26,415	-
Block Grant for Community Mental Health Services:						
Pass-through, Alameda County, Behavioral Health Care Srv, AL County SSI & SSDI Appeals Advocacy, HLP Health Legal Partnership		93.598	07/01/2015-6/30/2016	24,950	7,199	
Pass-through, Alameda County, Behavioral Health Care Srv, AL County SSI & SSDI Appeals Advocacy, Health Legal Partnership		93.598	07/1/2016-6/30/2017	24,950	13,475	
Sub-total pass-through, Alameda County				49,900	20,674	-
Total DHHS				978,972	722,255	-
U.S. Department of Justice ("DOJ"):						
Services for Trafficking Victims:						
Direct, Office on Victims of Crime Regional Youth Trafficking Program	2014-VT-BX-K008	16.320	10/01/2014-12/30/2017	400,000	130,871	
Direct, Office on Victims of Crime Santa Clara trafficking	2015-VT-BX-K031	16.320	10/01/2015-09/31/2018	54,141	11,901	
Direct, SA/or Labor Trafficking wrap around services-Contra Costa County	20-035-0	16.320	07/01/2016-06/30/2017	30,052	1,451	
Legal Assistance for Victims:						
Direct, Office on Violence Against Women (OVW), Legal Assistance to Victims (LAV) Program	2015-WL-AX-0019	16.524	10/01/2015-09/31/2018	600,000	206,737	15,000
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program:						
Pass-through, Contra Costa County, Grant to Encourage Arrests (GTEA)	19-643-4	16.590	01/01/2016-12/31/2016	26,729	26,729	
Total DOJ				1,110,922	377,689	15,000
U.S. Department of Veterans Affairs ("DVA"):						
VA Supportive Services for Veteran Families Program:						
Pass-through, East Oakland Community Project, Oakland Together for Veterans Collaborative Program	MOU	64.033	10/01/2015-09/30/2016	64,254	57,619	
Pass-through, East Oakland Community Project, Oakland Together for Veterans Collaborative Program	MOU	64.033	10/01/2016-09/30/2017		14,094	
Pass-through, Shelter Inc., Supportive Services for Veteran Families (SSVF) Program	MOU	64.033	10/01/2015-09/30/2016	21,721	16,118	
Pass-through, Shelter Inc., Supportive Services for Veteran Families (SSVF) Program	MOU	64.033	10/01/2016-09/30/2017	21,721	2,532	
Total DVA				107,696	90,363	-
Total Federal Awards				\$ 7,947,090	\$ 6,161,157	\$ 52,944

See independent auditors' report.

BAY AREA LEGAL AID

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2016

continued

(a) Audited as major program

Note 1. Basis of Presentation

The accompany Schedule of Expenditures of Federal Awards includes the Federal Award activity of BayLegal, under the programs of the federal government for the year ended December 31, 2016 in accordance with requirements of Title 2 U. S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit requirement for Federal Award* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of BayLegal, it is not intended to and does not present the financial position, changes in net assets, or cash flows of BayLegal.

Note 2. Summary of Accounting Significant Polices

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or limited as to reimbursement. BayLegal has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

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

BayLegal provided federal awards to the following subrecipients:

Agency	Federal CFDA No.	Amount Provided
Cooperative Restraining Order Clinic	16.524	\$ 15,000
Eden Council for Hope and Opportunity	14.218	37,944
Total Federal		<u>52,944</u>
 State and Local Grants		
Legal Assistance to the Elderly		184,150
BASF-SF Eviction Represent Collaborative		131,426
Housing & Economic Right Advocates		112,500
Legal Aid Society of San Mateo County		40,098
Public Interest Law Project		20,000
Justice in Aging		1,793
Wester Center on Law & Poverty		1,771
National Health Law Program		1,480
Legal Aid of San Diego, Inc.		1,063
		<u>494,281</u>
 Total		 \$ 547,225

See independent auditors' report.

ADDITIONAL INFORMATION

**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, 2016 and 2015, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2017.

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
Performed 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, 2017

**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, 2016. 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, 2016.

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, 2017

BAY AREA LEGAL AID
Schedule of Findings and Questioned Costs
For the year ended December 31, 2016

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 200.516 Audit Finding 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 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 200.519(b), (c), and (d) of 2 CFR 200, Uniform Guidance (see Audit Bulletin 97-01; see also Section 200.520 of 2 CFR 200, Uniform Guidance). Therefore, consistent with Audit Bulletin 97-01, for purposes of the current audit period, the LSC recipient cannot be considered a “low-risk auditee”.