

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

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

DECEMBER 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Rural Legal Assistance, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of California Rural Legal Assistance, Inc. (a nonprofit organization), which comprise of the Statements of Financial Position as of December 31, 2015 and 2014, and the related Statements of Activities and Change in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Rural Legal Assistance, Inc. 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.

INDEPENDENT AUDITORS' REPORT

continued

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 Support, Revenue, Expenses, and Changes in Net Assets for Legal Services Corporation ("LSC") Funds 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 23, 2016 on our consideration of California Rural Legal Assistance, Inc.'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 California Rural Legal Assistance, Inc.'s internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
March 23, 2016

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 552,318	\$ 123,590
Grants receivable	230,034	409,592
Pledges receivable (Note 3)	36,753	24,048
Other receivable	48,404	50,294
Prepaid expenses, deposits, and employee advances	199,128	226,427
Other assets	640	900
TOTAL CURRENT ASSETS	<u>1,067,277</u>	<u>834,851</u>
NON-CURRENT ASSETS		
Client trust funds (Note 2)	326,174	302,134
Pledges receivable (Note 3)	48,000	-
Property and equipment, net (Note 6)	3,185,022	3,253,529
TOTAL NON-CURRENT ASSETS	<u>3,559,196</u>	<u>3,555,663</u>
TOTAL ASSETS	<u>\$ 4,626,473</u>	<u>\$ 4,390,514</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 161,329	\$ 216,516
Accrued liabilities (Note 7)	590,144	630,340
Current portion of notes payable (Note 8)	87,825	91,979
TOTAL CURRENT LIABILITIES	<u>839,298</u>	<u>938,835</u>
NON-CURRENT LIABILITIES		
Client trust funds payable (Note 2)	326,174	302,134
Notes payable (Note 8)	1,596,913	1,689,722
TOTAL NON-CURRENT LIABILITIES	<u>1,923,087</u>	<u>1,991,856</u>
TOTAL LIABILITIES	<u>2,762,385</u>	<u>2,930,691</u>
NET ASSETS		
Unrestricted	653,151	500,395
Unrestricted board designated (Note 2)	731,868	713,197
Temporarily restricted (Note 10)	479,069	246,231
TOTAL NET ASSETS	<u>1,864,088</u>	<u>1,459,823</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,626,473</u>	<u>\$ 4,390,514</u>

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2015 and 2014

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grant revenue (Note 11)	\$ -	\$ 12,174,133	\$ 12,174,133	\$ -	\$ 12,894,138	\$ 12,894,138
Donated services (Note 4)	527,466		527,466	655,665		655,665
Attorneys fees and costs recovery	92,556	460,933	553,489	6,321	562,395	568,716
Contributions	347,288	800	348,088	412,771		412,771
Special event revenue	176,220		176,220	148,981		148,981
Other revenue	116,388	44,658	161,046	94,123	272,686	366,809
Net assets released from program restrictions	12,447,686	(12,447,686)	-	13,627,888	(13,627,888)	-
TOTAL REVENUE AND SUPPORT	13,707,604	232,838	13,940,442	14,945,749	101,331	15,047,080
EXPENSES						
Program services	10,818,493		10,818,493	12,704,599		12,704,599
Management and general	2,113,157		2,113,157	1,998,778		1,998,778
Fundraising	604,527		604,527	630,208		630,208
TOTAL EXPENSES	13,536,177	-	13,536,177	15,333,585	-	15,333,585
CHANGE IN NET ASSETS	171,427	232,838	404,265	(387,836)	101,331	(286,505)
NET ASSETS, BEGINNING OF YEAR	1,213,592	246,231	1,459,823	1,601,428	144,900	1,746,328
NET ASSETS, END OF YEAR	\$ 1,385,019	\$ 479,069	\$ 1,864,088	\$ 1,213,592	\$ 246,231	\$ 1,459,823

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended December 31, 2015 and 2014

	Year Ended December 31, 2015				Year Ended December 31, 2014			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 5,494,206	\$ 1,106,850	\$ 277,951	\$ 6,879,007	\$ 6,482,314	\$ 1,031,156	\$ 276,932	\$ 7,790,402
Employee benefits and payroll taxes	1,757,397	303,398	73,785	2,134,580	2,073,502	235,144	66,093	2,374,739
Total personnel costs	7,251,603	1,410,248	351,736	9,013,587	8,555,816	1,266,300	343,025	10,165,141
Contract services	856,961	147,920	127,962	1,132,843	1,051,535	166,779	97,217	1,315,531
Space and occupancy	884,995	133,604	8,618	1,027,217	956,261	182,330	17,046	1,155,637
Donated services expense (Note 4)	527,466			527,466	655,665			655,665
Travel and training	259,797	155,226	36,525	451,548	377,597	151,402	61,373	590,372
Supplies and materials	196,043	26,426	42,537	265,006	211,978	26,517	45,384	283,879
Library	232,291	935	1,703	234,929	243,129	1,901	888	245,918
Telephone	176,538	32,294	6,459	215,291	219,381	45,345	7,995	272,721
Depreciation expense	124,142	24,248	6,937	155,327	105,220	16,554	5,219	126,993
Litigation expenses	122,537			122,537	130,275			130,275
Equipment rent and related expenses	86,635	8,202	1,602	96,439	83,206	3,886	1,410	88,502
Insurance	68,437	24,090	510	93,037	64,025	15,030	510	79,565
Miscellaneous	11,092	75,418	3,790	90,300	21,337	54,701	7,392	83,430
Audit		51,000		51,000	4,745	45,255		50,000
Memberships	19,956	23,546		43,502	24,429	22,778		47,207
Special event expense			16,148	16,148			42,749	42,749
TOTAL FUNCTIONAL EXPENSES	\$ 10,818,493	\$ 2,113,157	\$ 604,527	\$ 13,536,177	\$ 12,704,599	\$ 1,998,778	\$ 630,208	\$ 15,333,585

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

STATEMENTS OF CASH FLOWS For the years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 404,265	\$ (286,505)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	155,327	126,993
(Increase) decrease in operating assets:		
Grants receivable	179,558	81,083
Pledges receivable	(60,705)	45,760
Other receivable	1,890	(10,773)
Prepaid expenses, deposits, and employee advances	27,299	191,253
Other assets	260	(100)
Cash held in trust	(24,040)	(90,374)
Increase (decrease) in operating liabilities:		
Accounts payable	(55,187)	13,782
Accrued liabilities	(40,196)	122,581
Refundable advances	-	(1,349,299)
Client trust funds payable	24,040	90,374
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	612,511	(1,065,225)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(86,820)	(837,022)
NET CASH (USED) BY INVESTING ACTIVITIES	(86,820)	(837,022)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(96,963)	(79,482)
NET CASH (USED) BY FINANCING ACTIVITIES	(96,963)	(79,482)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	428,728	(1,981,729)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	123,590	2,105,319
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 552,318	\$ 123,590
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflects interest paid of:	\$ 101,838	\$ 91,414
Non-cash investing and financing activities:		
Acquisition of property and equipment with note payable	\$ -	\$ 1,330,000

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization

Established in 1966 as a private, nonprofit law firm, California Rural Legal Assistance, Inc. (“CRLA”) provides free legal assistance to rural California’s low income population.

As of December 31, 2015, CRLA’s staff included fifty-six attorneys and seventy-two community workers, paralegals, clerical, and other support staff in its Oakland headquarters, and seventeen offices in various rural locations in the state. Each rural office has a professional staff supported by CRLA counsel and administrative staff in Oakland.

Non-management attorneys, community workers, and clerical employees are members of Legal Services Workers of Rural California (“LSWRC”), National Organization of Legal Services Workers (“NOLSW”), and United Auto Workers (“UAW”) Local 2320. In 2014, a new three-year Collective Bargaining Agreement (“CBA”) became effective.

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 CRLA 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.

Unrestricted Board Designated. These are comprised of assets, which the Board of Directors has established as being designated for Board specified activities. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at December 31, 2015 and 2014.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. CRLA 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 Statements of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit CRLA to expend all of the income (or other economic benefits) derived from the donated assets. CRLA has no permanently restricted net assets at December 31, 2015 and 2014.

Cash and Cash Equivalents

CRLA has defined cash and cash equivalents as short-term, highly liquid investments with an original maturity of twelve months or less.

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

CRLA is required to measure its donated materials and services at fair value. The specific techniques used to measure fair value for the element is described in the notes below that relate to the element.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at 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.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

A number of unpaid volunteers have made significant contributions of their time to CRLA. CRLA received donated services from volunteers who serve as attorneys and paralegals.

Concentration of Credit Risks

CRLA 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. CRLA has not incurred losses related to these investments.

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 CRLA's receivables consist of earned fees from contract programs granted by governmental agencies. Approximately 69% and 64% of revenue generated by CRLA at December 31, 2015 and 2014, respectively was derived from government contracts.

Client Trust Funds

CRLA holds funds in trust for its clients relating to settlements awarded by the courts and deposits held for filing and other fees. The balance of such accounts is included as both an asset and a liability of CRLA, because CRLA has a fiduciary responsibility to account for such funds. While such amounts are included in the financial statements, they are separate from the assets and liabilities of CRLA.

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 for both the Legal Services Corporation ("LSC") and non-LSC assets are capitalized if the cost of the asset is greater than or equal to five thousand dollars and the useful life is greater than one year. Estimated useful lives of property and equipment vary from three to thirty years.

Property and equipment acquired with federal funds or LSC funds are considered to be owned by CRLA 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.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

CRLA 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 CRLA in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. CRLA'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 CRLA's programs and other activities have been presented in the Statements 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.

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.

Subsequent Events

Management has evaluated subsequent events through March 23, 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 as support when pledged unless designated otherwise. Management deemed pledges collectible; accordingly no allowance for doubtful accounts has been established for uncollectible pledges. Additionally, all pledges are valued at their estimated fair value December 31, 2015 and 2014. Discount on pledges receivables is immaterial, accordingly unamortized discount on pledges receivable is not recorded. Total amount of pledges receivable at December 31, 2015, of \$84,753 is expected to be collected as follows:

continued

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

<u>Year ended December 31,</u>	
2016	\$36,753
2017	16,000
2018	16,000
2019	<u>16,000</u>
	<u>\$84,753</u>

4. Donated Services

CRLA has received significant contribution of non-cash services, which is summarized below. The fair value of contributed services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets.

	<u>2015</u>	<u>2014</u>
Donated services	<u>\$527,466</u>	<u>\$655,665</u>

5. Fair Value Measurements

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

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated Services	\$ _____	<u>\$527,466</u>	\$ _____	<u>\$527,466</u>
<u>December 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated Services	\$ _____	<u>\$655,665</u>	\$ _____	<u>\$655,665</u>

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

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

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

<u>December 31, 2015</u>	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Building	\$2,242,873	\$ 549,899	\$ 2,792,772
Land	791,250	166,740	957,990
Building improvements	714,387	224,823	939,210
Law library		391,111	391,111
Office equipment	52,299	195,289	247,588
Furniture and equipment	3,414	92,180	95,594
Leasehold improvements	<u>17,350</u>	<u>25,649</u>	<u>42,999</u>
	3,821,573	1,645,691	5,467,264
Less: accumulated depreciation	<u>(842,609)</u>	<u>(1,439,633)</u>	<u>(2,282,242)</u>
	<u>\$2,978,964</u>	<u>\$ 206,058</u>	<u>\$ 3,185,022</u>

<u>December 31, 2014</u>	<u>Non-LSC</u>	<u>LSC</u>	<u>Total</u>
Building	\$2,242,873	\$ 549,899	\$ 2,792,772
Land	791,250	166,740	957,990
Building improvements	637,566	214,823	852,389
Law library		391,111	391,111
Office equipment	52,299	206,186	258,485
Furniture and equipment	3,414	98,948	102,362
Leasehold improvements	<u>17,350</u>	<u>25,649</u>	<u>42,999</u>
	3,744,752	1,653,356	5,398,108
Less: accumulated depreciation	<u>(702,002)</u>	<u>(1,442,577)</u>	<u>(2,144,579)</u>
	<u>\$3,042,750</u>	<u>\$ 210,779</u>	<u>\$ 3,253,529</u>

7. Accrued Liabilities

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

	<u>2015</u>	<u>2014</u>
Accrued vacation	\$337,157	\$394,077
Other accrued liabilities	149,651	148,767
Accrued salaries	<u>103,336</u>	<u>87,496</u>
	<u>\$590,144</u>	<u>\$630,340</u>

continued

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

8. 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 deed of trust, monthly payment of \$9,285, including rate of 5.68%, due March 2034.	\$1,256,725	\$1,301,274
Note payable to a nonprofit development corporation, secured by two deeds of trust, monthly payments of \$4,833, including interest rate at 7.07% plus .75% servicing fee, due May 2018.	334,323	367,071
Note payable to a bank, secured by deed of trust, monthly payments of \$1,251, including current interest rate at 8.25%, due May 2024.	90,254	97,035
Note payable to a bank, secured by a deed of trust, monthly payments of \$1,160, including interest rate at 9.875%, due March 2016.	<u>3,436</u>	<u>16,321</u>
	1,684,738	1,781,701
Less: current portion	<u>(87,825)</u>	<u>(91,979)</u>
	<u>\$1,596,913</u>	<u>\$1,689,722</u>

Maturities for notes payable are as follows:

<u>Year ended December 31,</u>	
2016	\$ 87,825
2017	90,046
2018	315,884
2019	58,663
2020	62,357
Thereafter	<u>1,069,963</u>
	<u>\$1,684,738</u>

continued

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies

Obligations Under Operating Leases

CRLA 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	\$ 550,321
2017	537,151
2018	528,001
2019	501,782
2020	305,085
Thereafter	<u>930,775</u>
	<u>\$3,353,115</u>

Rent expense under operating leases for the years ended December 31, 2015 and 2014 was \$547,605 and \$697,608, respectively.

Contracts

CRLA'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, CRLA has no provisions for the possible disallowance of program costs on its financial statements.

Litigation

CRLA is a defendant in various lawsuits and management intends to defend the agency vigorously in these matters. As of the date of our report, it is not possible to predict the probable outcome or the extent of CRLA's liability, if any.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
LSC	\$160,074	\$ -
Property purchase with funds from LSC	115,804	113,744
Other	<u>203,191</u>	<u>132,487</u>
	<u>\$479,069</u>	<u>\$246,231</u>

continued

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

11. Grant Revenue

Grant revenue for the years ended December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
LSC	\$ 7,416,703	\$ 7,252,622
Equal Access to Justice Fund	1,109,508	1,244,249
IOLTA	861,131	855,673
The William and Flora Hewlett Foundation	666,666	666,666
US Department of HUD	650,000	487,500
California Endowment	439,143	736,370
Other	<u>1,030,982</u>	<u>1,651,058</u>
	<u>\$12,174,133</u>	<u>\$12,894,138</u>

12. Employee Benefit Plan

Effective January 1, 2003, CRLA established an individually designated retirement plan under Internal Revenue Code Section 401(a) available to all employees. CRLA contributes to the plan on behalf of each employee based on a schedule dependent on total salaries and years of service. The total amount contributed by CRLA was \$101,587 and \$129,314 for the years ended December 31, 2015 and 2014, respectively.

Effective July 1, 2006, CRLA established an individually designated retirement plan under Internal Revenue Code Section 403(b) available to all highly compensated employees within the meaning of Internal Revenue Code Section 414(q). Eligible participants may contribute an amount equal to the amount of compensation reduced pursuant to the participant's election not to exceed \$16,500 in a calendar year. CRLA is not required to make any contributions to this plan.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

NOTES TO FINANCIAL STATEMENTS

13. Private Attorney Involvement

LSC requires that an amount equal to 12.5% of its current basic grant be utilized for private attorney involvement (“PAI”). CRLA’s PAI requirement and the related expenses during the year ended December 31, 2015 are summarized below:

Support:

LSC basic grant	\$4,766,159
	<u>x 12.5%</u>
PAI requirement	<u>595,770</u>

Expenses:

Personnel salaries:	
Lawyers, paralegals, and administrative staff	415,854
Employee benefits and payroll taxes	92,486
Space and occupancy	45,007
Library maintenance	11,327
Telephone	7,368
Supplies and materials	11,538
Insurance	12,939
Litigation cost	12,755
Other	6,071
Equipment rental and maintenance	4,311
Audit fees	3,934
Travel and training	<u>14,519</u>
	<u>638,109</u>

Net PAI expenses over the requirement threshold \$ 42,339

SUPPLEMENTAL SCHEDULES

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

SCHEDULE OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET ASSETS FOR LEGAL SERVICES CORPORATION FUNDS
For the year ended December 31, 2015

	<u>Basic</u>	<u>Migrant</u>	<u>Vieth Leadership</u>	<u>Total</u>	<u>Property</u>	<u>Total</u>
REVENUE AND SUPPORT						
Grant revenue	\$ 4,766,159	\$ 2,640,544	\$ 10,000	\$ 7,416,703	\$ -	\$ 7,416,703
Attorney fees and costs recovery	250,456	210,477		460,933		460,933
Other revenue	24,256	20,332		44,588		44,588
TOTAL REVENUE AND SUPPORT	<u>5,040,871</u>	<u>2,871,353</u>	<u>10,000</u>	<u>7,922,224</u>	<u>-</u>	<u>7,922,224</u>
EXPENSES						
Salaries and wages	2,775,758	1,552,927		4,328,685		4,328,685
Employee benefits	556,179	298,229		854,408		854,408
Payroll taxes	325,105	181,524		506,629		506,629
Total personnel costs	<u>3,657,042</u>	<u>2,032,680</u>	<u>-</u>	<u>5,689,722</u>	<u>-</u>	<u>5,689,722</u>
Space and occupancy	444,258	199,694		643,952		643,952
Travel and training	160,660	105,768		266,428		266,428
Library	149,722	61,290		211,012		211,012
Telecommunications	127,182	38,127		165,309		165,309
Supplies and materials	138,233	56,323		194,556		194,556
Contract services	115,581	75,781		191,362		191,362
Litigation expenses	38,919	61,230		100,149		100,149
Miscellaneous	39,299	19,945		59,244		59,244
Equipment rent and related	63,243	20,051		83,294		83,294
Insurance	53,529	31,560		85,089		85,089
Audit	28,851	15,535		44,386		44,386
Depreciation expense				-	14,721	14,721
Memberships	7,571	3,295		10,866		10,866
TOTAL EXPENSES	<u>5,024,090</u>	<u>2,721,279</u>	<u>-</u>	<u>7,745,369</u>	<u>14,721</u>	<u>7,760,090</u>
CHANGE IN NET ASSETS BEFORE INTER-FUND TRANSFER	16,781	150,074	10,000	176,855	(14,721)	162,134
INTER-FUND TRANSFER	<u>(16,781)</u>			<u>(16,781)</u>	16,781	<u>-</u>
CHANGE IN NET ASSETS	-	150,074	10,000	160,074	2,060	162,134
NET ASSETS, BEGINNING OF YEAR				<u>-</u>	113,744	<u>113,744</u>
NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 150,074</u>	<u>\$ 10,000</u>	<u>\$ 160,074</u>	<u>\$ 115,804</u>	<u>\$ 275,878</u>

See independent auditors' report.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

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

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Federal Program Expenditure</u>
Federal Award					
Legal Services Corporation:					
Direct Legal Services for Low Income - Basic (a)	805260	09.80526	01/01/2015 - 12/31/2015	\$ 4,766,159	\$ 4,766,159
Direct Vieth Leadership Development (a)	805260	09.80526	09/09/2015 - 09/08/2016	10,000	-
Direct Legal Services for Low Income - Migrant (a)	805260	09.80526	01/01/2015 - 12/31/2015	<u>2,640,544</u>	<u>2,640,544</u>
Total Legal Services Corporation				<u>7,416,703</u>	<u>7,406,703</u>
U.S. Department of Labor:					
Pass-through Harwood Training Grant - Workplace Violence Initiative	SH263321460F6	17.502	09/30/2014 - 09/30/2015	140,000	105,000
Pass-through Harwood Training Grant - Workplace Violence Initiative	SH276921560F6	17.502	09/30/2015 - 09/30/2016	<u>126,000</u>	<u>31,500</u>
Total Department of Labor				<u>266,000</u>	<u>136,500</u>
U.S. Department of Housing and Urban Development:					
Pass-through Fair Housing Enforcement Program	FH700G12055MY (Year 2)	14.218	04/01/2013 - 03/31/2014	325,000	81,250
Pass-through Fair Housing Enforcement Program	FH700G12055MY (Year 3)	14.218	04/01/2015 - 03/31/2016	325,000	243,750
Pass-through Fair Housing Enforcement Program - Mortgage Rescue	FH800G14011	14.218	01/01/2015 - 12/31/2015	<u>325,000</u>	<u>325,000</u>
Total Department of Housing and Urban Development				<u>975,000</u>	<u>650,000</u>
Total Federal Awards				<u>\$ 8,657,703</u>	<u>\$ 8,193,203</u>

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

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
California Rural Legal Assistance, Inc.

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 California Rural Legal Assistance, Inc. ("CRLA"), which comprise the Statement of Financial Position as of December 31, 2015, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CRLA's internal control over financial reporting (internal control) 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 CRLA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CRLA'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 CRLA'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit 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 CRLA'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*.

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 23, 2016

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

To the Board of Directors
California Rural Legal Assistance, Inc.

Report on Compliance for Each Major Federal Program

We have audited California Rural Legal Assistance, Inc.'s ("CRLA") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CRLA's major federal programs for the year ended December 31, 2015. CRLA'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 CRLA'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 requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 CRLA'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 CRLA's compliance.

Opinion on Each Major Federal Program

In our opinion, CRLA 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 CRLA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered CRLA's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 CRLA's internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by 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 23, 2016

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.
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 Circular A-133?	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 Services Corporation:	
Legal Services for Low Income	09.80526

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.

CALIFORNIA RURAL LEGAL ASSISTANCE, INC.

Schedule of Findings and Questioned Costs

For the year ended December 31, 2015

continued

Section IV – Summary Schedule of Prior Year Findings

2014-001: Certification of Program Integrity of Funds Received from Other Sources. We noted that CRLA had provided a qualified certification that was in compliance with the provisions of 45 CFR 1610 due to one out of the sixteen field offices surveyed failing to show sufficient program separation from a CRLA supported voluntary pro bono program.

Current Status: We noted that this finding has been corrected in the current year.

* 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”.