

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2021 AND 2020

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2021 AND 2020

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Legal Aid of Middle Tennessee and the Cumberlandds

Board of Directors

December 31, 2021

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Susan L. Kay – First Vice President

Walter H. Stubbs – Second Vice President

Katie Bell Klinghard – Third Vice President

Adrie Mae Rhodes – Secretary

David A. Weil – Treasurer

James L. Weatherly, Jr. – Member at Large

Charles Grant – Past President

John T. Blankenship

Judge Michael W. Binkley

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Misty M. Phy

Erin Palmer Polly

Trey Reliford

Hon. Sal W. Varsalona

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Legal Aid Society of Middle Tennessee and the Cumberland
Nashville, Tennessee

REPORT ON THE AUDITS OF THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid Society of Middle Tennessee and the Cumberland as of December 31, 2021 and 2020, 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.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standard applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence that judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Board of Directors listing on page i, schedule of expenditures of federal awards on pages 24-26 and schedule of support, revenue, expenses and changes in net assets for LSC funds on page 27, as required by the State of Tennessee Audit Manual, Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Legal Services Corporation (“LSC”) *Audit Guide*, 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 on pages 25-28 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.

The board of directors listing on page i has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2022 on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Aid Society of Middle Tennessee and the Cumberland’s internal control over financial reporting and compliance.

K. H. CPAs PLLC

Nashville, Tennessee
April 26, 2022

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|-------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 2,349,299 | \$ 2,363,649 |
| Investments | 5,097,991 | 4,884,208 |
| Accounts receivable | - | 2,403 |
| Federal, state and local grants receivable | 338,573 | 580,466 |
| Contributions receivable | 399,341 | 381,764 |
| Prepaid expenses and deposits | 92,735 | 78,635 |
| Property and equipment, net | 238,258 | 251,323 |
| Restricted cash - client escrow funds | <u>12,036</u> | <u>9,895</u> |
| TOTAL ASSETS | <u>\$ 8,528,233</u> | <u>\$ 8,552,343</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES | | |
| Accounts payable | \$ 37,857 | \$ 131,763 |
| Accrued expenses and other | 746,891 | 689,182 |
| Deferred revenue | 391,903 | 1,149,262 |
| Client escrow deposits | <u>12,036</u> | <u>9,895</u> |
| TOTAL LIABILITIES | <u>1,188,687</u> | <u>1,980,102</u> |
| NET ASSETS | | |
| Net assets without donor restrictions | 5,246,391 | 4,417,536 |
| Net assets with donor restrictions | <u>2,093,155</u> | <u>2,154,705</u> |
| TOTAL NET ASSETS | <u>7,339,546</u> | <u>6,572,241</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,528,233</u> | <u>\$ 8,552,343</u> |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | | | TOTAL |
|---------------------------------------|----------------------------------|-------------------------|---------------------|---------------------|---------------------|
| | | LSC | NON-LSC | TOTAL | |
| REVENUES AND SUPPORT | | | | | |
| Federal, state and local awards | \$ - | \$ 4,346,679 | \$ 3,370,687 | \$ 7,717,366 | \$ 7,717,366 |
| Contributions and foundation grants | 1,055,337 | - | 599,394 | 599,394 | 1,654,731 |
| Investment income, net | 314,192 | 81 | - | 81 | 314,273 |
| Attorney fees | - | - | 2,000 | 2,000 | 2,000 |
| Donated services | - | 793,474 | - | 793,474 | 793,474 |
| Net assets released from restrictions | 9,173,865 | (5,140,234) | (4,033,631) | (9,173,865) | - |
| | <u>10,543,394</u> | <u>-</u> | <u>(61,550)</u> | <u>(61,550)</u> | <u>10,481,844</u> |
| TOTAL REVENUES AND SUPPORT | | | | | |
| OPERATING EXPENSES | | | | | |
| Program services | 7,927,547 | - | - | - | 7,927,547 |
| Supporting services: | | | | | |
| Management and general | 1,437,634 | - | - | - | 1,437,634 |
| Fundraising | 349,358 | - | - | - | 349,358 |
| | <u>9,714,539</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,714,539</u> |
| TOTAL OPERATING EXPENSES | | | | | |
| CHANGE IN NET ASSETS | 828,855 | - | (61,550) | (61,550) | 767,305 |
| NET ASSETS - BEGINNING OF YEAR | 4,417,536 | - | 2,154,705 | 2,154,705 | 6,572,241 |
| NET ASSETS - END OF YEAR | <u>\$ 5,246,391</u> | <u>\$ -</u> | <u>\$ 2,093,155</u> | <u>\$ 2,093,155</u> | <u>\$ 7,339,546</u> |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | | | |
|--|----------------------------------|-------------------------|---------------------|---------------------|---------------------|
| | | LSC | NON-LSC | TOTAL | TOTAL |
| REVENUES AND SUPPORT | | | | | |
| Federal, state and local awards | \$ - | \$ 2,593,949 | \$ 3,845,434 | \$ 6,439,383 | \$ 6,439,383 |
| Contributions and foundation grants | 862,947 | - | 689,096 | 689,096 | 1,552,043 |
| Paycheck Protection Program grant | - | - | 1,030,380 | 1,030,380 | 1,030,380 |
| Investment income, net | 231,423 | 757 | - | 757 | 232,180 |
| Loss on disposal of property and equipment | (27,677) | - | - | - | (27,677) |
| Donated services | - | 992,017 | - | 992,017 | 992,017 |
| Net assets released from restrictions | 9,032,546 | (3,635,745) | (5,396,801) | (9,032,546) | - |
| | <u>10,099,239</u> | <u>(49,022)</u> | <u>168,109</u> | <u>119,087</u> | <u>10,218,326</u> |
| TOTAL REVENUES AND SUPPORT | | | | | |
| OPERATING EXPENSES | | | | | |
| Program services | 8,089,212 | - | - | - | 8,089,212 |
| Supporting services: | | | | | |
| Management and general | 1,147,721 | - | - | - | 1,147,721 |
| Fundraising | 564,639 | - | - | - | 564,639 |
| | <u>9,801,572</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,801,572</u> |
| TOTAL OPERATING EXPENSES | | | | | |
| CHANGE IN NET ASSETS | 297,667 | (49,022) | 168,109 | 119,087 | 416,754 |
| NET ASSETS - BEGINNING OF YEAR | 4,119,869 | 49,022 | 1,986,596 | 2,035,618 | 6,155,487 |
| NET ASSETS - END OF YEAR | <u>\$ 4,417,536</u> | <u>\$ -</u> | <u>\$ 2,154,705</u> | <u>\$ 2,154,705</u> | <u>\$ 6,572,241</u> |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

| | <u>PROGRAM SERVICES</u> | <u>MANAGEMENT AND GENERAL</u> | <u>FUNDRAISING</u> | <u>TOTAL</u> |
|---|-----------------------------|-----------------------------------|--------------------|---------------------|
| PERSONNEL EXPENSES | | | | |
| Lawyers | \$ 2,969,454 | \$ 249,135 | \$ 43,245 | \$ 3,261,834 |
| Paralegals | 867,302 | 31,685 | 5,702 | 904,689 |
| Support staff | 812,453 | 538,929 | 85,131 | 1,436,513 |
| Employee benefits | 1,109,735 | 105,210 | 28,685 | 1,243,630 |
| Payroll taxes | <u>345,957</u> | <u>46,547</u> | <u>14,349</u> | <u>406,853</u> |
| TOTAL PERSONNEL EXPENSES | <u>6,104,901</u> | <u>971,506</u> | <u>177,112</u> | <u>7,253,519</u> |
| OTHER EXPENSES | | | | |
| Advertising | 27,393 | - | - | 27,393 |
| Court costs and litigation | 126,615 | - | - | 126,615 |
| Depreciation | 35,972 | - | - | 35,972 |
| Dues and fees | 19,904 | 2,383 | 2,103 | 24,390 |
| Equipment rental and other | 57,749 | 19,972 | 5,766 | 83,487 |
| Insurance | 35,527 | 5,027 | 820 | 41,374 |
| Occupancy | 375,059 | 173,405 | 36 | 548,500 |
| Postage | 20,426 | 4,801 | 7,515 | 32,742 |
| Printing and publications | 79,517 | 4,479 | 30,449 | 114,445 |
| Professional fees and contract services | 146,727 | 194,466 | 61,828 | 403,021 |
| Supplies | 15,546 | 38,330 | 44,360 | 98,236 |
| Telephone | 46,192 | 11,268 | 4,866 | 62,326 |
| Training | 8,343 | 8,526 | 14,282 | 31,151 |
| Travel | <u>34,202</u> | <u>3,471</u> | <u>221</u> | <u>37,894</u> |
| TOTAL OTHER EXPENSES | <u>1,029,172</u> | <u>466,128</u> | <u>172,246</u> | <u>1,667,546</u> |
| TOTAL EXPENSES BEFORE DONATED SERVICES | 7,134,073 | 1,437,634 | 349,358 | 8,921,065 |
| Donated services | <u>793,474</u> | <u>-</u> | <u>-</u> | <u>793,474</u> |
| TOTAL EXPENSES | <u>\$ 7,927,547</u> | <u>\$ 1,437,634</u> | <u>\$ 349,358</u> | <u>\$ 9,714,539</u> |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2020

| | <u>PROGRAM SERVICES</u> | <u>MANAGEMENT AND GENERAL</u> | <u>FUNDRAISING</u> | <u>TOTAL</u> |
|---|-----------------------------|-----------------------------------|--------------------|---------------------|
| PERSONNEL EXPENSES | | | | |
| Lawyers | \$ 2,781,204 | \$ 118,098 | \$ 181,663 | \$ 3,080,965 |
| Paralegals | 832,239 | 9,170 | 37,472 | 878,881 |
| Support staff | 936,151 | 344,746 | 112,639 | 1,393,536 |
| Employee benefits | 1,062,188 | 82,589 | 8,151 | 1,152,928 |
| Payroll taxes | <u>313,446</u> | <u>51,666</u> | <u>23,944</u> | <u>389,056</u> |
| TOTAL PERSONNEL EXPENSES | <u>5,925,228</u> | <u>606,269</u> | <u>363,869</u> | <u>6,895,366</u> |
| OTHER EXPENSES | | | | |
| Advertising | 43,208 | - | - | 43,208 |
| Court costs and litigation | 125,000 | 254 | - | 125,254 |
| Depreciation | 47,417 | - | - | 47,417 |
| Dues and fees | 30,131 | 8,302 | 1,514 | 39,947 |
| Equipment rental and other | 51,874 | 28,258 | 38 | 80,170 |
| Insurance | 25,844 | 16,855 | 325 | 43,024 |
| Occupancy | 363,964 | 169,127 | 181 | 533,272 |
| Postage | 25,514 | 2,190 | 3,505 | 31,209 |
| Printing and publications | 105,965 | 5,269 | 20,423 | 131,657 |
| Professional fees and contract services | 169,362 | 199,811 | 99,090 | 468,263 |
| Supplies | 76,225 | 70,304 | 52,875 | 199,404 |
| Telephone | 51,017 | 22,132 | 2,423 | 75,572 |
| Training | 12,146 | 18,950 | 19,519 | 50,615 |
| Travel | <u>44,300</u> | <u>-</u> | <u>877</u> | <u>45,177</u> |
| TOTAL OTHER EXPENSES | <u>1,171,967</u> | <u>541,452</u> | <u>200,770</u> | <u>1,914,189</u> |
| TOTAL EXPENSES BEFORE DONATED SERVICES | 7,097,195 | 1,147,721 | 564,639 | 8,809,555 |
| Donated services | <u>992,017</u> | <u>-</u> | <u>-</u> | <u>992,017</u> |
| TOTAL EXPENSES | <u>\$ 8,089,212</u> | <u>\$ 1,147,721</u> | <u>\$ 564,639</u> | <u>\$ 9,801,572</u> |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------|--------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ 767,305 | \$ 416,754 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 35,972 | 47,417 |
| Loss on disposal of property and equipment | - | 27,677 |
| Realized and unrealized gains on investments | (268,334) | (179,778) |
| (Increase) decrease in: | | |
| Accounts receivable | 2,403 | 408 |
| Federal, state and local grants receivable | 241,893 | (388,158) |
| Contributions receivable | (17,577) | (61,899) |
| Prepaid expenses and deposits | (14,100) | 14,226 |
| Increase (decrease) in: | | |
| Accounts payable | (93,906) | 89,066 |
| Accrued expenses | 57,709 | 102,583 |
| Client escrow deposits | 2,141 | 2,296 |
| Deferred revenue | (757,359) | 1,149,262 |
| TOTAL ADJUSTMENTS | (811,158) | 803,100 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (43,853) | 1,219,854 |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (22,907) | (13,145) |
| Proceeds from sale of property and equipment | - | 1,125 |
| Purchases of investments | (1,277,113) | (594,463) |
| Proceeds from sale of investments | 1,331,664 | 647,753 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 31,644 | 41,270 |
| NET CHANGE IN CASH AND RESTRICTED CASH | (12,209) | 1,261,124 |
| CASH AND RESTRICTED CASH - BEGINNING OF YEAR | 2,373,544 | 1,112,420 |
| CASH AND RESTRICTED CASH - END OF YEAR | \$ 2,361,335 | \$ 2,373,544 |
| Cash | \$ 2,349,299 | \$ 2,363,649 |
| Restricted cash - client escrow deposits | 12,036 | 9,895 |
| | \$ 2,361,335 | \$ 2,373,544 |

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

NOTE 1 - NATURE OF ACTIVITIES

Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") is a not-for-profit corporation organized to provide legal services for the indigent, the elderly, victims of domestic violence and otherwise disadvantaged persons. The Organization is supported primarily through grants from Legal Services Corporation ("LSC"), an annual fund-raising campaign, various foundation grants, state and local governments and local area United Way agencies. The Organization serves 48 counties in Middle Tennessee and the Cumberland.

LSC is a not-for-profit corporation established by the United States Congress in 1974 and located in the District of Columbia. Congress appropriates federal funds annually to LSC which, in turn, makes grants to local organizations that provide legal assistance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets that are not subject to donor or grantor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the Board of Directors.
- *Net assets with donor restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor and certain grantor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Receivables

Grants - Revenues from government grant and contract agreements, which are generally considered non-exchange transactions with conditions, are recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenues on the Statements of Financial Position. LSC has changed its position on the accounting for the Basic Field Grant to better align with the enhanced contributions and grants guidance adopted in the prior year. Grants receivable are recorded when conditions have been satisfied but the payment has not yet been received. At December 31, 2021, there were deferred grant revenues related to LSC grants in the amount of \$391,903.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made.

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date of the donor's commitment or gift. Noncash contributions are recorded at the estimated fair value at the date of the gift. Contributions receivable, if any, are recorded at the estimated present value, net of an allowance for uncollectible amounts, if deemed necessary. At December 31, 2021 and 2020, all contributions receivable were due within one year.

As of December 31, 2021 and 2020, an allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

Cash and Restricted Cash

Cash consists of operating checking accounts with financial institutions and petty cash. Cash that is designated for long-term investment is included in investments in the Statements of Financial Position. The Organization holds restricted cash on behalf of its client's trust accounts which are reported on the Statements of Financial Position as restricted cash. These balances are offset by a corresponding liability.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of cash and money market funds held for investment, certificates of deposit, equity securities and fixed income securities. Certificates of deposit are valued at cost plus accrued interest and equity and fixed income securities are carried at the quoted market value on the last business day of the reporting period. Interest and dividend income, as well as realized and unrealized gains and losses, are accounted for in accordance with donor restrictions (if any). The changes in unrealized gains and losses are recognized in the Statement of Activities.

Fair Value Measurements

The Organization classifies its investments measured at fair value based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available) and Level 3 (securities valued based on significant unobservable inputs). An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - equity and fixed income securities - Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded and are classified within Level 1 of the valuation hierarchy. These investments also include securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data, and other relevant elements, and are classified within Level 2 of the valuation hierarchy.

No changes in the valuation methodologies have been made since the prior year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are reported at cost at the date of purchase, at the carrying basis for assets transferred in from merged organizations, or at estimated fair value at date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$2,500 or more and an estimated useful life of greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets (office furniture and computer equipment - 3 to 10 years; buildings and improvements - 10 to 39 years).

Property and equipment acquired with Legal Services Corporation funds are considered to be owned by the Organization. However, LSC has a reversionary interest in the property, as well as the final determination of the use of any proceeds from the sale of those assets. At December 31, 2021 and 2020, there were no assets purchased with LSC funds on the Organization's books.

Advertising

The Organization expenses advertising expenses as incurred.

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills and would have otherwise been purchased by the Organization. The Organization utilizes donated time from local area attorneys and paralegals who provide legal services to eligible clients. The donated time represents a material contribution to the Organization's operations and is recognized in the financial statements based on average hourly rates for legal services in the respective areas.

A substantial number of unpaid volunteers have contributed their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - includes activities carried out to fulfill the Organization's mission to provide free civil legal services for the indigent, the elderly, victims of domestic violence and otherwise disadvantaged persons in 48 counties in Middle Tennessee and the Cumberland. The Organization leverages resources by cooperation and coordination with bar association sponsored pro bono programs and other legal assistance resources. The Organization places a high priority on supporting the integrity, safety and well-being of family by providing assistance with preserving the home, obtaining housing, maintaining economic stability, preventing domestic violence, obtaining health care and encouraging family stability.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

Supporting Services

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities related to obtaining resources, both financial support and donated legal services. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the annual fundraising campaign.

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that are consistently applied. Allocated expenses include occupancy, which is allocated on a square footage basis, as well as salaries, employee benefits, payroll taxes, professional fees and contract services, supplies, travel and telephone which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization files U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax return to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there were no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification ("ASC") 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Organization expects to elect all the practical expedients available. The Organization expects the impact to materially affect the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Organization beginning on January 1, 2022. The adoption of ASU 2020-07 is not expected to have a significant impact on the Organization's financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2021 and April 26, 2022, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, as of December 31 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Financial assets at year end: | | |
| Cash | \$ 2,349,299 | \$ 2,363,649 |
| Investments | 5,097,991 | 4,884,208 |
| Accounts receivable | - | 2,403 |
| Federal, state and local grants receivable | 338,573 | 580,466 |
| Contributions receivable | <u>399,341</u> | <u>381,764</u> |
| Total financial assets | 8,185,204 | 8,212,490 |
| Less amounts not available to be used within one year: | | |
| LSC deferred revenue | (391,903) | (1,149,262) |
| Restricted by the donor with time or purpose restrictions | <u>(2,093,155)</u> | <u>(2,154,705)</u> |
| Financial assets available to meet general expenditures over the next year | <u>\$ 5,700,146</u> | <u>\$ 4,908,523</u> |

As part of the liquidity management plan, the Organization invests cash in excess of normal requirements in short-term investments, CDs and money market funds.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 4 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, contributions receivable, investments and revenue.

The Organization maintains cash balances and certificates of deposit at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balance may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

Contributions receivable consist of campaign, foundation and other organization pledges, as well as United Way receivables. Contribution receivable from three contributors approximated 75% of total contributions receivable as of December 31, 2021 (90% from three contributors in 2020). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization received approximately 45% and 28% of its revenues, excluding donated services, from Legal Services Corporation in 2021 and 2020, respectively. Revenue, excluding donated services from one other source was approximately 25% of total revenue, excluding donated services, per year ending December 31, 2021 and 2020.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodians of the Organization's securities are covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 5 - INVESTMENTS

Investments consisted of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------|---------------------|---------------------|
| Cash and money market funds | \$ 1,096,586 | \$ 1,834,800 |
| Certificates of deposit | 515,708 | 515,470 |
| Equity securities | 2,317,111 | 1,222,008 |
| Fixed income securities | <u>1,168,586</u> | <u>1,311,930</u> |
| | <u>\$ 5,097,991</u> | <u>\$ 4,884,208</u> |

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 5 - INVESTMENTS (CONTINUED)

The following schedule summarizes the investment income for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|--------------------------|--------------------------|
| Interest and dividend income | \$ 66,506 | \$ 64,574 |
| Realized gain on investments | 30,459 | 9,061 |
| Unrealized gain on investments | 237,875 | 170,717 |
| Less: investment management fees | <u>(20,567)</u> | <u>(12,172)</u> |
| Investment income, net | <u><u>\$ 314,273</u></u> | <u><u>\$ 232,180</u></u> |

NOTE 6 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis consisted of the following at December 31:

| | <u>2021</u> | | | |
|--|----------------------------|----------------------------|--------------------|----------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Fixed income securities | \$ - | \$ 1,168,586 | \$ - | \$ 1,168,586 |
| Equity securities | <u>2,317,111</u> | <u>-</u> | <u>-</u> | <u>2,317,111</u> |
| <i>Total investments at fair value</i> | <u><u>\$ 2,317,111</u></u> | <u><u>\$ 1,168,586</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 3,485,697</u></u> |

| | <u>2020</u> | | | |
|--|----------------------------|----------------------------|--------------------|----------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Fixed income securities | \$ - | \$ 1,311,930 | \$ - | \$ 1,311,930 |
| Equity securities | <u>1,222,008</u> | <u>-</u> | <u>-</u> | <u>1,222,008</u> |
| <i>Total investments at fair value</i> | <u><u>\$ 1,222,008</u></u> | <u><u>\$ 1,311,930</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,533,938</u></u> |

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| Land | \$ 60,000 | \$ 60,000 |
| Buildings and improvements | 199,654 | 196,486 |
| Office furniture and computer equipment | <u>348,280</u> | <u>328,540</u> |
| | 607,934 | 585,026 |
| Less accumulated depreciation | <u>(369,676)</u> | <u>(333,703)</u> |
| | <u><u>\$ 238,258</u></u> | <u><u>\$ 251,323</u></u> |

None of the property and equipment shown above were purchased with LSC funding.

NOTE 8 - DEFERRED REVENUE AND LSC GRANT BALANCES

LSC recipients are required to obtain approval to carry over any remaining LSC fund balance each year in excess of 10% of LSC support (Basic Field Grant only). Prior to April 2020, with the issuance of LSC Program Letter 20-4, the LSC Accounting Guide for LSC Recipients instructed recipients to account for the LSC Basic Field Grant as a contribution, with any unspent funds carried as donor restricted net assets (fund balance). Program Letter 20-4 better aligns LSC revenue recognition for the Basic Field Grant with guidance that was effective for the Organization in the prior year with the adoption of ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This LSC guidance states that the Basic Field Grant is a non-reciprocal transaction (contribution) with conditions that must be met in order to recognize the revenue, and therefore any unspent monies received would be treated as deferred revenue at year end. At December 31, 2021, the following amounts were remaining on the various LSC awards received during 2021.

| | Original Amount Awarded | Accrued (Deferred) Revenue 12/31/2020 | Amount Expended | Accrued (Deferred) Revenue 12/31/2021 | Remaining Award Available |
|-------------------------------------|-------------------------------|--|----------------------------|--|---------------------------------|
| LSC Basic Field Grant 2020 | \$ 3,347,711 | \$ (841,591) | \$ 841,591 | \$ - | \$ - |
| LSC Basic Field Grant 2021 | 3,537,252 | - | 3,145,349 | (391,903) | - |
| LSC COVID-19 Response Grant | 317,146 | (262,819) | 262,819 | - | - |
| LSC Disaster Emergency Relief Grant | 125,412 | (44,852) | 96,839 | 51,987 | - |
| LSC TIG Grant | <u>134,530</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>134,530</u> |
| | <u><u>\$ 7,462,051</u></u> | <u><u>\$ (1,149,262)</u></u> | <u><u>\$ 4,346,598</u></u> | <u><u>\$ (339,916)</u></u> | <u><u>\$ 134,530</u></u> |

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 9 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions include certain amounts designated by the board of directors for specific purposes. At December 31, net assets without donor restrictions consist of the following:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Net investment in property and equipment | \$ 238,258 | \$ 251,323 |
| Board designated earnings on donor restricted investment | 513,569 | 372,591 |
| Undesignated | <u>4,494,564</u> | <u>3,793,622</u> |
| | <u>\$ 5,246,391</u> | <u>\$ 4,417,536</u> |

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Contributions and receivables - time restriction | \$ 452,855 | \$ 406,378 |
| United Way receivable - time restriction | 67,039 | 69,457 |
| Contributions and receivables - purpose restriction: | | |
| Loewenstein chair | 1,430,199 | 1,430,199 |
| Housing program | 25,546 | 50,000 |
| Employee appreciation | - | 12,200 |
| Tornado relief | 53,222 | 63,261 |
| Bankruptcy program | 10,000 | - |
| Re-entry program | - | 13,134 |
| Veterans program | - | 15,000 |
| SNAP community outreach | 41,863 | 82,645 |
| Other | <u>12,431</u> | <u>12,431</u> |
| | <u>\$ 2,093,155</u> | <u>\$ 2,154,705</u> |

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 11 - PAYCHECK PROTECTION PROGRAM

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act provides an economic relief package to many businesses in the US as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act establishes the Paycheck Protection Program (PPP), which is implemented by the Small Business Administration, and is intended to provide small businesses and certain nonprofit organizations with funds to pay payroll costs and benefits, interest on mortgages, rent and utilities.

The Organization received a \$1,030,380 loan under the PPP in May 2020. The loan was uncollateralized and fully guaranteed by the Federal government. The Organization recognized the full amount as grant revenue for the year ended December 31, 2020 and received formal notification of forgiveness in April 2021.

NOTE 12 - DONATED SERVICES

Donated services consisted of the following for the years ended December 31:

| | <u>2021</u> | | | <u>2020</u> | | |
|------------------------|---------------|--------------|--|---------------|--------------|--|
| | <u>Rate</u> | <u>Hours</u> | <u>Value of Donated Services</u> | <u>Rate</u> | <u>Hours</u> | <u>Value of Donated Services</u> |
| Attorneys | \$200 - \$275 | 2,552 | \$ 661,055 | \$200 - \$275 | 3,617 | \$ 926,831 |
| Paralegals | \$75 | - | - | \$75 | - | - |
| Law clerks | \$14 | 4,832 | 67,641 | \$14 | 2,712 | 37,963 |
| Other services | | | <u>64,778</u> | | | <u>27,223</u> |
| Total donated services | | | <u>\$ 793,474</u> | | | <u>\$ 992,017</u> |

The number of donated service hours varies from year to year depending on the number of cases served and the complexity of those cases.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 13 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from approximately \$2,200 to \$5,100 through 2026 (excluding the Nashville office lease).

The Organization entered into a 123-month lease for a new Nashville office location, which began in April 2018. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. Minimum lease payments range from \$207,621 to \$259,290 per year. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the term of the lease. Any excess of rent expense recognized over the amount paid is included in accrued expenses.

A summary of aggregate future lease commitments for office in effect as of December 31, 2021, follows:

| <u>For the year ending December 31,</u> | <u>Minimum Lease Commitments</u> |
|---|--------------------------------------|
| 2022 | \$ 438,820 |
| 2023 | 364,440 |
| 2024 | 346,777 |
| 2025 | 333,421 |
| 2026 | 297,285 |
| Thereafter | <u>388,975</u> |
| | <u>\$ 2,169,718</u> |

Total rental expense recognized under all rental agreements for the years ended December 31, 2021 and 2020 amounted to approximately \$486,000 and \$480,000, respectively, for office space and approximately \$68,000 and \$51,000, respectively, for office equipment.

NOTE 14 - RETIREMENT PLAN

The Organization's eligible employees are covered under a 401(k) retirement plan. At the discretion of the Board, contributions to the plan are made by the Organization on behalf of all eligible employees based on their compensation. The Organization contributed \$152,805 and \$129,499, respectively, for the years ended December 31, 2021 and 2020.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 15 - HEALTH REIMBURSEMENT PROGRAM

In addition to a third-party provider health insurance plan, the Organization has a health reimbursement program for medical expenses of its employees and the employees' dependents. Specific individual claims are limited to \$3,500 for every employee enrolled in the medical plan plus another \$3,500 for each employee that covers at least one dependent. During the years ended December 31, 2021 and 2020, expenses totaled \$50,497 and \$34,207, respectively, under the program. The Organization has accrued a liability for the claims that had been incurred but not paid of \$19,736 and \$15,216, respectively, as of December 31, 2021 and 2020.

NOTE 16 - FUNDRAISING EXPENSES

Fundraising expenses are comprised of the following for the years ended December 31:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-------------------|-------------------|
| Annual fundraising campaign | \$ 142,988 | \$ 231,081 |
| Recruiting volunteer attorneys | 4,122 | 26,869 |
| Obtaining other financial resources | <u>202,248</u> | <u>306,689</u> |
| | <u>\$ 349,358</u> | <u>\$ 564,639</u> |

NOTE 17 - ALLOCATION OF MATCHING FUNDS

The Organization receives the following grants which require matching funds:

- Greater Nashville Regional Council (Title III of the Older Americans Act Grant) requires matching of 10%, except any COVID funds received;
- South Central Tennessee Development District Area Agency on Aging and Disability (Title III of the Older Americans Act Grants) requires matching of 10%;
- Tennessee Department of Finance and Administration (VOCA, VOCA Enhancement, VOCA Immigration, and VOCA Elder Trust Grants) required matching of 10% on amount earned during the year until September 30, 2021. Effective October 1, 2021, Congress enacted the VOCA Fix Act which suspended the required 20% match on VOCA grants. The suspension of the match will extend for an additional year after the pandemic is no longer declared a national emergency under the National Emergencies Act. A termination date for the national emergency status has not been established as of the date of the report.
- U.S. Department of Treasury (Low-Income Taxpayer Clinic Grant), which requires a 100% match on amount earned during the year.

For the years ended December 31, 2021 and 2020, these matches amounted to \$297,956 and \$299,420, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2021 AND 2020

NOTE 18 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

Two donor-designated endowment funds have been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the funds and, therefore, these assets are not included in the Statements of Financial Position of the Organization. Income distributed to the Organization is recognized in the year received. The Organization received distributions in the amount of \$44,000 in the year ended December 31, 2021 (\$44,100 in 2020). Total assets held in these funds amounted to \$1,050,971 and \$1,002,054 at December 31, 2021 and 2020, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2021

| Program Name | Federal CFDA Number | Contract Number | Award Period | Award Amount | Accrued (Deferred) Revenue 12/31/2020 | Receipts | Program Income | Expenditures | Accrued (Deferred) Revenue 12/31/2021 |
|--|---------------------------|-------------------|---------------------|-----------------|--|-----------|-------------------|--------------|--|
| <u>LEGAL SERVICES CORPORATION</u> | | | | | | | | | |
| DIRECT: | | | | | | | | | |
| Basic Field Grant | 09.643040 | (1) N/A | 01/01/20 - 12/31/20 | \$ 3,347,711 | \$ (841,591) | \$ - | \$ - | \$ 841,591 | \$ - |
| Basic Field Grant | 09.643040 | (1) N/A | 01/01/21 - 12/31/21 | \$ 3,537,251 | - | 3,537,252 | 81 | 3,145,430 | (391,903) |
| COVID-19 Response Grant | 09.643040 | (1) CV20096 | 03/01/20 - 09/30/21 | \$ 317,146 | (262,819) | - | - | 262,819 | - |
| Disaster Emergency Relief Grant | 09.643040 | (1) DR20001 | 05/18/20 - 05/17/21 | \$ 125,412 | (44,852) | - | - | 96,839 | 51,987 |
| <u>TOTAL DIRECT LEGAL SERVICES CORPORATION</u> | | | | | (1,149,262) | 3,537,252 | 81 | 4,346,679 | (339,916) |
| PASSED THROUGH EQUAL JUSTICE WORKS | | | | | | | | | |
| Rural Summer Legal Corps Program | 09.643040 | (1) N/A | 05/25/21 - 09/30/21 | \$ 5,000 | - | 5,000 | - | 5,000 | - |
| <u>TOTAL PASSED THROUGH EQUAL JUSTICE WORKS</u> | | | | | - | 5,000 | - | 5,000 | - |
| <u>TOTAL LEGAL SERVICES CORPORATION</u> | | | | | (1,149,262) | 3,542,252 | 81 | 4,351,679 | (339,916) |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | | | | | | | |
| PASSED THROUGH WEST TENNESSEE LEGAL SERVICES: | | | | | | | | | |
| Fair Housing Initiatives Program - Private Enforcement | 14.408 | FPEI 20065 | 03/01/21 - 02/28/22 | \$ 48,910 | - | 29,161 | - | 39,414 | 10,253 |
| <u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u> | | | | | - | 29,161 | - | 39,414 | 10,253 |
| PASSED THROUGH THE CITY OF CLARKSVILLE, TENNESSEE | | | | | | | | | |
| Community Development Block Grant Coronavirus Program | 14.218-COVID | N/A | 06/01/21 - 05/31/22 | \$ 100,000 | - | 12,609 | - | 32,691 | 20,082 |
| <u>TOTAL PASSED THROUGH THE CITY OF CLARKSVILLE, TENNESSEE</u> | | | | | - | 12,609 | - | 32,691 | 20,082 |
| <u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | | | - | 41,770 | - | 72,105 | 30,335 |
| <u>U.S. DEPARTMENT OF JUSTICE</u> | | | | | | | | | |
| PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION: | | | | | | | | | |
| Victims of Crime Act (VOCA) | 16.575 | 41748 | 07/01/20 - 06/30/22 | \$ 1,039,500 | 83,275 | 465,344 | - | 420,649 | 38,580 |
| Victims of Crime Act (VOCA) | 16.575 | 43371 | 02/01/21 - 06/30/21 | \$ 41,250 | - | 22,102 | - | 22,102 | - |
| Victims of Crime Act (VOCA) (Enhancement) | 16.575 | 37345 | 02/15/19 - 06/30/23 | \$ 2,808,370 | 89,788 | 533,304 | - | 474,110 | 30,594 |
| Victims of Crime Act (VOCA) (Immigration Clinic) | 16.575 | 37752 | 02/15/19 - 06/30/23 | \$ 988,251 | 52,046 | 307,611 | - | 280,127 | 24,562 |
| Victims of Crime Act (VOCA) (Elder Trust) | 16.575 | 44677 | 07/01/21 - 12/31/21 | \$ 214,091 | - | 129,366 | - | 157,463 | 28,097 |
| <u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u> | | | | | 225,109 | 1,457,727 | - | 1,354,451 | 121,833 |
| <u>TOTAL U.S. DEPARTMENT OF JUSTICE</u> | | | | | 225,109 | 1,457,727 | - | 1,354,451 | 121,833 |
| <u>U.S. DEPARTMENT OF THE TREASURY</u> | | | | | | | | | |
| DIRECT: | | | | | | | | | |
| Low-Income Taxpayer Clinic Grant Program | 21.008 | 21-LITC0437-03-00 | 01/01/21 - 12/31/21 | \$ 100,000 | 53,950 | 131,571 | - | 100,000 | 22,379 |
| <u>TOTAL DIRECT U.S. DEPARTMENT OF THE TREASURY</u> | | | | | 53,950 | 131,571 | - | 100,000 | 22,379 |
| PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES | | | | | | | | | |
| Coronavirus Relief Fund | 21.019 - COVID | N/A | 03/01/20 - 12/30/20 | \$ 211,944 | 133,906 | 133,906 | - | - | - |
| <u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES</u> | | | | | 133,906 | 133,906 | - | - | - |

(continued on next page)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2021

| Program Name | Federal CFDA Number | Contract Number | Award Period | Award Amount | Accrued (Deferred) Revenue 12/31/2020 | Receipts | Program Income | Expenditures | Accrued (Deferred) Revenue 12/31/2021 |
|--|---------------------------|-----------------|---------------------|-----------------|--|---------------------|-------------------|---------------------|--|
| <u>U.S. DEPARTMENT OF THE TREASURY (CONTINUED)</u> | | | | | | | | | |
| PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY | | | | | | | | | |
| Coronavirus Relief Fund | 21.019 - COVID | L-4499 | 03/01/20 - 12/30/20 | \$ 169,000 | \$ 81,077 | \$ 81,077 | \$ - | \$ - | \$ - |
| TOTAL PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY | | | | | 81,077 | 81,077 | - | - | - |
| <u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u> | | | | | 268,933 | 346,554 | - | 100,000 | 22,379 |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | | | | | |
| PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL: | | | | | | | | | |
| Legal Assistance - Title III Priority | 93.044 | 2019-07 | 07/01/20 - 06/30/20 | \$ 55,000 | 11,453 | 11,453 | - | - | - |
| Legal Assistance - Title III Priority | 93.044 | 2019-07 | 07/01/21 - 06/30/21 | \$ 80,086 | - | 43,545 | - | 54,972 | 11,427 |
| Legal Assistance - Title III Priority | 93.044 | LAS 2021-C07 | 08/01/20 - 09/30/21 | \$ 6,000 | - | 4,700 | - | 4,700 | - |
| TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL | | | | | 11,453 | 59,698 | - | 59,672 | 11,427 |
| PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY: | | | | | | | | | |
| Legal Assistance - Title III Priority | 93.044 | 06-2021-13 | 07/01/20 - 06/30/21 | \$ 36,500 | - | 21,290 | - | 21,290 | - |
| Legal Assistance - Title III Priority | 93.044 | 06-2021-13 | 07/01/21 - 06/30/22 | \$ 52,500 | - | 21,875 | - | 21,875 | - |
| TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY | | | | | - | 43,165 | - | 43,165 | - |
| PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES: | | | | | | | | | |
| Temporary Assistance for Needy Families - SSI Representation | 93.558 | GR 34530-40618 | 07/01/20 - 06/30/21 | N/A | 12,285 | 21,051 | - | 48,005 | 39,239 |
| Temporary Assistance for Needy Families - SSI Representation | 93.558 | GR 34530-40618 | 07/01/21 - 06/30/22 | N/A | - | 81,597 | - | 82,015 | 418 |
| Cycles of Success | 93.558 | GR 34530-71920 | 07/01/20 - 12/31/21 | \$ 567,155 | 62,686 | 231,820 | - | 230,089 | 60,955 |
| TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES | | | | | 74,971 | 334,468 | - | 360,109 | 100,612 |
| <u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | | 86,424 | 437,331 | - | 462,946 | 112,039 |
| <u>TOTAL OF EXPENDITURES OF FEDERAL AWARDS</u> | | | | | <u>\$ (568,796)</u> | <u>\$ 5,825,634</u> | <u>\$ 81</u> | <u>\$ 6,341,181</u> | <u>\$ (53,330)</u> |

(1) Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR)

Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

Summary of expenditures by CFDA number

| | |
|--------------|--------------|
| 09.643040 | \$ 4,351,679 |
| 14.408 | 39,414 |
| 14.218-COVID | 32,691 |
| 16.575 | 1,354,451 |
| 21.008 | 100,000 |
| 93.044 | 102,837 |
| 93.558 | 360,109 |

SEE NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS ON PAGE 26.

Total \$ 6,341,181

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the 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 the *LSC Audit Guide*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 allowable or are limited as to reimbursement. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance when an approved indirect cost rate has not been available.

NOTE 3 - SUBRECIPIENTS

The Organization has not passed any federal awards through to subrecipients for the year ended December 31, 2021.

NOTE 4 - STATE FINANCIAL ASSISTANCE

The Organization did not have any direct state assistance for the year ended December 31, 2021.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

SCHEDULE OF SUPPORT, REVENUE, EXPENSES AND
CHANGES IN NET ASSETS FOR LSC FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2021

| | Basic Field Grant | Private Attorney Involvement | COVID-19 Response Grant | Disaster Emergency Relief Grant | Total |
|--|-------------------------|------------------------------------|-------------------------------|---------------------------------------|------------------|
| SUPPORT AND REVENUE | | | | | |
| Grants and contracts - LSC * | \$ 3,502,700 | \$ 484,321 | \$ 262,819 | \$ 96,839 | \$ 4,346,679 |
| Interest and investment income | 81 | - | - | - | 81 |
| Donated services | - | 793,474 | - | - | 793,474 |
| Total support and revenue | <u>3,502,781</u> | <u>1,277,795</u> | <u>262,819</u> | <u>96,839</u> | <u>5,140,234</u> |
| PERSONNEL EXPENSES | | | | | |
| Lawyers | 1,393,942 | 180,768 | 159,472 | 47,141 | 1,781,323 |
| Paralegals | 288,344 | 35,582 | - | 7,241 | 331,167 |
| Support staff | 884,684 | 77,073 | 71,849 | - | 1,033,606 |
| Employee benefits | 222,548 | 66,314 | - | 12,413 | 301,275 |
| Payroll taxes | 182,401 | 22,456 | 17,058 | 4,095 | 226,010 |
| Total personnel expenses | <u>2,971,919</u> | <u>382,193</u> | <u>248,379</u> | <u>70,890</u> | <u>3,673,381</u> |
| OTHER EXPENSES | | | | | |
| Donated services | - | 793,474 | - | - | 793,474 |
| Dues and fees | - | 1,718 | - | - | 1,718 |
| Court costs and litigation | 47,296 | 1,876 | - | 870 | 50,042 |
| Equipment rental and other | 43,104 | 193 | - | - | 43,297 |
| Insurance | 1,364 | - | - | - | 1,364 |
| Occupancy | 198,426 | 32,834 | - | - | 231,260 |
| Other | - | 1,126 | 985 | - | 2,111 |
| Postage | 14,475 | 510 | - | - | 14,985 |
| Printing and publications | 41,286 | 1,303 | 3,698 | 1,771 | 48,058 |
| Professional fees and contract services | 96,787 | 53,713 | 8,000 | 21,070 | 179,570 |
| Supplies | 32,671 | 2,246 | 1,357 | 1,498 | 37,772 |
| Telephone | 29,514 | 2,567 | - | - | 32,081 |
| Training | 5,680 | 3,717 | - | 570 | 9,967 |
| Travel | 20,259 | 325 | 400 | 170 | 21,154 |
| Total other expenses | <u>530,862</u> | <u>895,602</u> | <u>14,440</u> | <u>25,949</u> | <u>1,466,853</u> |
| TOTAL EXPENSES | <u>3,502,781</u> | <u>1,277,795</u> | <u>262,819</u> | <u>96,839</u> | <u>5,140,234</u> |
| SUPPORT AND REVENUE OVER EXPENSES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL CHANGES IN NET ASSETS | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET ASSETS - BEGINNING OF YEAR | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET ASSETS - END OF YEAR | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

* Amounts shown reflect only revenue recorded for each award. Unspent amounts have been deferred in accordance with *Program Letter 20-4*. See also Note 8 in the financial statements.

OTHER REPORTS

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Legal Aid Society of Middle Tennessee and the Cumberland
Nashville, Tennessee

We have audited, 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, the financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *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.

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Legal Aid Society of Middle Tennessee and the Cumberlands' 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 financial statements. 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.

Handwritten signature of Kraft CPAs PLLC in black ink.

Nashville, Tennessee
April 26, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Legal Aid Society of Middle Tennessee and the Cumberland
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

OPINION ON EACH MAJOR FEDERAL PROGRAM

We have audited Legal Aid Society of Middle Tennessee and the Cumberland's (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the *Legal Services Corporation (LSC) Audit Guide* (the "Guide") that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Legal Aid Society of Middle Tennessee and the Cumberland's 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, 2021.

BASIS FOR OPINION ON EACH MAJOR FEDERAL PROGRAM

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance) and the *LSC Audit Guide*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit or Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 and the LSC *Audit Guide*. Accordingly, this report is not suitable for any other purpose.



Nashville, Tennessee
April 26, 2022

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Number(s) Name of Federal Program or Cluster

09.643040 Legal Services Corporation - Basic Field Grant

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

PRIOR YEAR

There were no prior year findings.

CURRENT YEAR

There are no current year findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PRIOR YEAR

There were no prior year findings.

CURRENT YEAR

There are no current year findings.