

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2022 AND 2021

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR’S REPORTS

DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

	<u>PAGE</u>
BOARD OF DIRECTORS LISTING .....	i
<u>INDEPENDENT AUDITOR’S REPORT</u> .....	1 - 3
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position .....	4
Statement of Activities - 2022 .....	5
Statement of Activities - 2021 .....	6
Statement of Functional Expenses - 2022 .....	7
Statement of Functional Expenses - 2021 .....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	10 - 25
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards .....	26 - 27
Notes to Schedule of Expenditures of Federal Awards .....	28
Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds .....	29
 <u>OTHER REPORTS</u>	
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 <i>Government Auditing Standards</i> .....	30 - 31
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	32 - 34
Schedule of Findings and Questioned Costs .....	35 - 37

**Legal Aid of Middle Tennessee and the Cumberland**

**Board of Directors**

**December 31, 2022**

Susan L. Kay – President

Walter H. Stubbs – First Vice President

David A. Weil – Second Vice President

Katie Bell Klinghard – Third Vice President

Adrie Mae Rhodes – Secretary

Trey Reliford – Treasurer

James L. Weatherly, Jr. – Member at Large

J. Andrew Goddard – Past President

John T. Blankenship

Charita Bennett

Judge Michael W. Binkley

Traci Brooks

Cynthia A Cheatham

Sharon Crane

Diane Davis

Charles K. Grant

Cameron R. Hoffmeyer

Rebecca Kopp

Tessa N. Lawson

Turner McCollough, Jr.

Misty M. Phy

Erin Palmer Polly

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, 2022 and 2021, 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, 2022 and 2021, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards 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.

#### EMPHASIS OF MATTER

As discussed in Note 3 to the financial statements, the Organization has elected to change its method of accounting for leases during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

## 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 schedule of expenditures of federal awards on pages 26-28 and schedule of support, revenue, expenses and changes in net assets for LSC funds on page 29, as required by 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 26-29 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 INFORMATION

Management is responsible for the other information included in the financial statements. The other information comprises the board of directors listing on page i but does not include the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2023 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.

*Kraft CPAs PLLC*

Nashville, Tennessee  
April 25, 2023

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash	\$ 2,415,930	\$ 2,349,299
Investments	4,633,949	5,097,991
Federal, state and local grants receivable	256,123	338,573
Contributions receivable	384,249	399,341
Prepaid expenses and deposits	111,151	92,735
Property and equipment, net	223,672	238,258
Operating leases, right-of-use assets	4,061,823	-
Restricted cash - client escrow funds	<u>5,558</u>	<u>12,036</u>
 TOTAL ASSETS	 <u>\$ 12,092,455</u>	 <u>\$ 8,528,233</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 87,054	\$ 37,857
Accrued expenses and other	641,576	746,891
Deferred revenue	273,578	391,903
Operating leases, right-of-use liabilities	4,175,605	-
Client escrow deposits	<u>5,558</u>	<u>12,036</u>
 TOTAL LIABILITIES	 <u>5,183,371</u>	 <u>1,188,687</u>
 NET ASSETS		
Net assets without donor restrictions	4,836,347	5,246,391
Net assets with donor restrictions	<u>2,072,737</u>	<u>2,093,155</u>
 TOTAL NET ASSETS	 <u>6,909,084</u>	 <u>7,339,546</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 12,092,455</u>	 <u>\$ 8,528,233</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, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			TOTAL
		LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 4,274,079	\$ 3,278,993	\$ 7,553,072	\$ 7,553,072
Contributions and foundation grants	990,907	-	697,602	697,602	1,688,509
Investment (loss) income, net	(335,221)	63	-	63	(335,158)
Donated legal services	-	663,704	-	663,704	663,704
Other contributed nonfinancial assets	26,148	-	-	-	26,148
Net assets released from restrictions	<u>8,934,859</u>	<u>(4,937,846)</u>	<u>(3,997,013)</u>	<u>(8,934,859)</u>	<u>-</u>
 TOTAL REVENUES AND SUPPORT	 <u>9,616,693</u>	 <u>-</u>	 <u>(20,418)</u>	 <u>(20,418)</u>	 <u>9,596,275</u>
OPERATING EXPENSES					
Program services	8,123,515	-	-	-	8,123,515
Supporting services:					
Management and general	1,631,874	-	-	-	1,631,874
Fundraising	<u>271,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,348</u>
 TOTAL OPERATING EXPENSES	 <u>10,026,737</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>10,026,737</u>
 CHANGE IN NET ASSETS	 (410,044)	 -	 (20,418)	 (20,418)	 (430,462)
 NET ASSETS - BEGINNING OF YEAR	 <u>5,246,391</u>	 <u>-</u>	 <u>2,093,155</u>	 <u>2,093,155</u>	 <u>7,339,546</u>
 NET ASSETS - END OF YEAR	 <u>\$ 4,836,347</u>	 <u>\$ -</u>	 <u>\$ 2,072,737</u>	 <u>\$ 2,072,737</u>	 <u>\$ 6,909,084</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			
		LSC	NON-LSC	TOTAL	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 legal 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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 3,062,985	\$ 201,731	\$ 8,966	\$ 3,273,682
Paralegals	969,055	-	32,525	1,001,580
Support staff	688,522	679,624	52,785	1,420,931
Employee benefits	1,278,317	78,763	3,572	1,360,652
Payroll taxes	341,054	53,589	7,164	401,807
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL PERSONNEL EXPENSES	6,339,933	1,013,707	105,012	7,458,652
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER EXPENSES				
Court costs and litigation	104,387	2,107	39	106,533
Depreciation	37,740	-	-	37,740
Dues and fees	39,820	5,868	2,841	48,529
Equipment rental and other	48,293	19,909	-	68,202
Insurance	31,114	6,872	-	37,986
Occupancy	437,848	149,705	2,011	589,564
Postage	17,321	4,919	8,469	30,709
Printing and publications	75,969	6,468	25,800	108,237
Professional fees and contract services	99,667	298,992	78,892	477,551
Supplies	67,343	82,393	42,653	192,389
Telephone	51,331	12,821	245	64,397
Training	39,851	23,073	4,516	67,440
Travel	69,194	5,040	870	75,104
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OTHER EXPENSES	1,119,878	618,167	166,336	1,904,381
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES BEFORE DONATED SERVICES	7,459,811	1,631,874	271,348	9,363,033
	<hr/>	<hr/>	<hr/>	<hr/>
Donated legal services	663,704	-	-	663,704
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 8,123,515</u>	<u>\$ 1,631,874</u>	<u>\$ 271,348</u>	<u>\$ 10,026,737</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 legal 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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (430,462)	\$ 767,305
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	37,740	35,972
Realized and unrealized (gains) losses on investments	398,906	(269,867)
(Increase) decrease in:		
Accounts receivable	-	2,403
Federal, state and local grants receivable	82,450	241,893
Contributions receivable	15,092	(17,577)
Prepaid expenses and deposits	(18,416)	(14,100)
Operating lease, right-of-use asset	538,904	-
Increase (decrease) in:		
Accounts payable	49,197	(93,906)
Accrued expenses and other	(105,315)	57,709
Client escrow deposits	(6,478)	2,141
Deferred revenue	(118,325)	(757,359)
Operating lease liability	(425,122)	-
TOTAL ADJUSTMENTS	<u>448,633</u>	<u>(812,691)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>18,171</u>	<u>(45,386)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(23,154)	(22,907)
Purchases of investments	(567,361)	(1,275,580)
Proceeds from sale of investments	<u>632,497</u>	<u>1,331,664</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>41,982</u>	<u>33,177</u>
NET CHANGE IN CASH AND RESTRICTED CASH	60,153	(12,209)
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	<u>2,361,335</u>	<u>2,373,544</u>
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 2,421,488</u>	<u>\$ 2,361,335</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
<u>Cash paid for:</u>		
Operating leases	<u>\$ 487,873</u>	<u>\$ -</u>
<u>Non-cash investing and financing activities:</u>		
R-O-U asset obtained from operating lease liability	<u>\$ 4,600,727</u>	<u>\$ -</u>

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, 2022 AND 2021

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, 2022 AND 2021

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. Grants receivable are recorded when conditions have been satisfied but the payment has not yet been received.

*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. Contributions receivable, if any, are recorded at the estimated present value, net of an allowance for uncollectible amounts, if deemed necessary. At December 31, 2022 and 2021, all contributions receivable were due within one year.

As of December 31, 2022 and 2021, 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.

Contributions of Nonfinancial Assets

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 was effective for the Organization beginning on January 1, 2022 and did not result in a significant change to the financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of Nonfinancial Assets (continued)

Contributed nonfinancial assets are recorded at fair value at the date of donation. Contributions of nonfinancial assets with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions of nonfinancial assets are recorded as net assets without donor restrictions.

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. Donated legal time represents a material contribution to the Organization's programs and is recognized in the financial statements based on average hourly rates for legal services in the respective areas. Other contributions of nonfinancial assets consist of donated public relations services and other items utilized in the Organization's program and are valued at fair values if purchased.

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.

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.

The following table provides a reconciliation of cash and restricted deposits reported within the Statements of Financial Position that sum to the total in the Statements of Cash Flows at December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,415,930	\$ 2,349,299
Restricted cash - client escrow deposits	<u>5,558</u>	<u>12,036</u>
	<u>\$ 2,421,488</u>	<u>\$ 2,361,335</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

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, 2022 AND 2021

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, 2022 and 2021, there were no assets purchased with LSC funds on the Organization's books.

Leases

The Organization made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

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.

Advertising

The Organization expenses advertising expenses as incurred.

Program and Supporting Services

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

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.

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

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.

Reclassifications

Certain prior year information has been reclassified to conform with the current year presentation. These reclassifications have no effect on net assets or changes in net assets for the year ended December 31, 2021.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2022 and April 25, 2023, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

In February 2016, the FASB issued Accounting Standards Codification ("ASC") Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statements of income. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The Organization elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases.

The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization’s operating leases of \$3,712,764 and \$3,797,987, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact changes in net assets or cash flows and did not result in a cumulative-effect adjustment to opening net assets.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 4 - 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>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash	\$ 2,415,930	\$ 2,349,299
Investments	4,633,949	5,097,991
Federal, state and local grants receivable	256,123	338,573
Contributions receivable	<u>384,249</u>	<u>399,341</u>
Total financial assets	7,690,251	8,185,204
Less amounts not available to be used within one year:		
Deferred grant revenue	(273,578)	(391,903)
Board restricted investment earnings	(197,341)	(513,569)
Restricted by the donor with time or purpose restrictions	<u>(2,072,737)</u>	<u>(2,093,155)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 5,146,595</u>	<u>\$ 5,186,577</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.

NOTE 5 - 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.

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 5 - CONCENTRATION OF CREDIT RISK (CONTINUED)

Contributions receivable consist of annual campaign, foundation and other organization pledges, as well as United Way receivables. Contribution receivable from two contributors approximated 76% of total contributions receivable as of December 31, 2022 (59% from two contributors in 2021). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization received approximately 48% and 45% of its revenues, excluding donated services, from Legal Services Corporation in 2022 and 2021, respectively. Revenue, excluding donated services from one other source was approximately 26% of total revenue, excluding donated services, for the year ended December 31, 2022 (24% for the year ended December 31, 2021).

NOTE 6 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and money market funds	\$ 858,679	\$ 1,096,586
Certificates of deposit	515,924	515,708
Equity securities	2,170,108	2,317,111
Fixed income securities	<u>1,089,238</u>	<u>1,168,586</u>
	<u>\$ 4,633,949</u>	<u>\$ 5,097,991</u>

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

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 93,394	\$ 64,973
Realized and unrealized gain (loss) on investments	(398,906)	269,867
Less: investment management fees	<u>(29,646)</u>	<u>(20,567)</u>
Investment (loss) income, net	<u>\$ (335,158)</u>	<u>\$ 314,273</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 7 - FAIR VALUE MEASUREMENTS

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

	2022			
	Level 1	Level 2	Level 3	Total
Fixed income securities	\$ -	\$ 1,089,238	\$ -	\$ 1,089,238
Equity securities	2,170,108	-	-	2,170,108
<i>Total investments at fair value</i>	<u>\$ 2,170,108</u>	<u>\$ 1,089,238</u>	<u>\$ -</u>	<u>\$ 3,259,346</u>

  

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

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2022	2021
Land	\$ 60,000	\$ 60,000
Buildings and improvements	211,186	199,654
Office furniture and computer equipment	273,594	348,280
	544,780	607,934
Less accumulated depreciation	(321,108)	(369,676)
	<u>\$ 223,672</u>	<u>\$ 238,258</u>

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 9 - 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 \$19,098 through 2032.

The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 521,361
Short-term lease cost	<u>68,104</u>
Total lease cost	<u>\$ 589,465</u>

Additional information related to leases is as follows as of December 31, 2022:

Operating leases:	
Operating lease right-of-use assets	<u>\$ 4,061,823</u>
Operating lease liabilities	<u>\$ 4,175,605</u>

Weighted-average remaining lease term:	
Operating leases	10.28 years

Weighted-average discount rate:	
Operating leases	2.18%

<u>Years ending December 31:</u>	
2023	\$ 507,709
2024	495,236
2025	435,839
2026	388,624
2027	400,290
Thereafter	<u>2,502,258</u>
Total lease payments	<u>4,729,956</u>
Less imputed interest	<u>(554,350)</u>
Total present value of lease liabilities	<u>\$ 4,175,606</u>



LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 9 - LEASES (CONTINUED)

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of December 31, 2021:

Years ending December 31:

2022	\$ 438,820
2023	364,440
2024	346,777
2025	333,421
2026	297,285
Thereafter	<u>388,975</u>
Total minimum lease payments	<u>\$ 2,169,718</u>

NOTE 10 - 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 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 current guidance. 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, 2022, the following amounts were remaining on the various LSC awards received during 2022.

	Original Amount Awarded	Accrued (Deferred) Revenue 12/31/2021	Amount Expended	Accrued (Deferred) Revenue 12/31/2022	Remaing Award Available
LSC Disaster Grant	\$ 125,412	\$ 51,987	\$ 87	\$ -	\$ -
LSC Basic Field Grant 2021	3,537,251	(391,903)	391,903	-	-
LSC Basic Field Grant 2022	3,832,310	-	3,832,310	-	-
LSC TIG Grant	<u>134,530</u>	<u>-</u>	<u>49,715</u>	<u>2,992</u>	<u>84,815</u>
	<u>\$ 7,629,503</u>	<u>\$ (339,916)</u>	<u>\$ 4,274,015</u>	<u>\$ 2,992</u>	<u>\$ 84,815</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 11 - 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>2022</u>	<u>2021</u>
Net investment in property and equipment	\$ 223,672	\$ 238,258
Board designated earnings on donor restricted investment	197,341	513,569
Undesignated	<u>4,415,334</u>	<u>4,494,564</u>
	<u><u>\$ 4,836,347</u></u>	<u><u>\$ 5,246,391</u></u>

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Contributions and receivables - time restriction	\$ 326,051	\$ 452,855
United Way receivable - time restriction	67,634	67,039
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
Eviction and housing support	30,000	25,546
Domestic and sexual assault	5,000	-
Tornado relief	18,766	53,222
Bankruptcy program	-	10,000
Re-entry program	40,417	-
Technology support	126,700	-
SNAP community outreach	-	41,863
Other	<u>27,970</u>	<u>12,431</u>
	<u><u>\$ 2,072,737</u></u>	<u><u>\$ 2,093,155</u></u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 13 - DONATED LEGAL SERVICES

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

	2022			2021		
	Rate	Hours	Value of Donated Services	Rate	Hours	Value of Donated Services
Attorneys	\$200 - \$275	2,143	\$ 535,230	\$200 - \$275	2,552	\$ 661,055
Paralegals	\$75	-	-	\$75	-	-
Law clerks	\$14	4,950	69,308	\$14	4,832	67,641
Other services			59,166			64,778
Total donated services			<u>\$ 663,704</u>			<u>\$ 793,474</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.

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 \$137,428 and \$152,805, respectively, for the years ended December 31, 2022 and 2021.

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, 2022 and 2021, expenses totaled \$86,588 and \$50,497, respectively, under the program. The Organization has accrued a liability for the claims that had been incurred but not paid of \$43,660 and \$19,736, respectively, as of December 31, 2022 and 2021.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 16 - FUNDRAISING EXPENSES

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

	<u>2022</u>	<u>2021</u>
Annual fundraising campaign	\$ 220,566	\$ 142,988
Recruiting volunteer attorneys	44,665	4,122
Obtaining other financial resources	<u>6,117</u>	<u>202,248</u>
	<u>\$ 271,348</u>	<u>\$ 349,358</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. The suspension of the match is currently expected to end mid-2024.
- 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, 2022 and 2021, these matches amounted to \$110,865 and \$297,956, respectively.

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 \$49,393 in the year ended December 31, 2022 (\$44,000 in 2021). Total assets held in these funds amounted to \$850,528 and \$1,050,971 at December 31, 2022 and 2021, respectively.

## ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2022

Program Name	Assistance Listing Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2021	Receipts	Program Income	Expenditures	Accrued (Deferred) Revenue 12/31/2022
<u>LEGAL SERVICES CORPORATION</u>									
DIRECT:									
Basic Field Grant	09.643040	(1) N/A	01/01/21 - 12/31/21	\$ 3,537,251	\$ (391,903)		\$ -	\$ 391,903	\$ -
Basic Field Grant	09.643040	(1) N/A	01/01/22 - 12/31/22	\$ 3,832,310	-	3,832,311	63	3,832,374	-
Disaster Recovery Grant	09.643040	(1) DR20001	05/18/20 - 05/17/21	\$ 125,412	51,987	52,074	-	87	-
TIG Grant	09.643040	(1) AD-TG21G-0002	11/01/21 - 10/31/23	\$ 134,530	-	46,723	-	49,715	2,992
TOTAL DIRECT LEGAL SERVICES CORPORATION					(339,916)	3,931,108	63	4,274,079	2,992
PASSED THROUGH EQUAL JUSTICE WORKS									
Rural Summer Legal Corps Program	09.643040	N/A	04/13/22 - 09/1/22	\$ 5,000	-	5,000	-	5,000	-
TOTAL PASSED THROUGH EQUAL JUSTICE WORKS					-	5,000	-	5,000	-
TOTAL LEGAL SERVICES CORPORATION					(339,916)	3,936,108	63	4,279,079	2,992
<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	03/01/22 - 02/28/23	\$ 48,910	10,253	71,278	-	61,025	-
Fair Housing Initiatives Program - Private Enforcement	14.408	FPEI122051	07/01/22 - 12/31/23	\$ 50,000	-	1,720	-	8,961	7,241
Eviction Prevention Project	14.537	EP-22-TN-003	07/01/22 - 06/30/24	\$ 647,427	-	23,219	-	34,062	10,843
TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES					10,253	96,217	-	104,048	18,084
PASSED THROUGH THE CITY OF CLARKSVILLE, TENNESSEE									
Community Development Block Grant Coronavirus Program	14.218	N/A	06/01/21 - 05/31/22	\$ 100,000	20,082	76,734	-	56,652	-
TOTAL PASSED THROUGH THE CITY OF CLARKSVILLE, TENNESSEE					20,082	76,734	-	56,652	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					30,335	172,951	-	160,700	18,084
<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 - 06/30/23	\$ 1,529,000	38,580	472,778	-	477,038	42,840
Victims of Crime Act (VOCA) (Enhancement)	16.575	37345	02/15/19 - 06/30/23	\$ 2,808,370	30,594	477,176	-	497,354	50,772
Victims of Crime Act (VOCA) (Immigration Clinic)	16.575	37752	02/15/19 - 06/30/23	\$ 1,629,865	24,562	313,810	-	319,163	29,915
Victims of Crime Act (VOCA) (Elder Trust)	16.575	44677	07/01/21 - 12/31/21	\$ 214,091	28,097	28,097	-	-	-
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION					121,833	1,291,861	-	1,293,555	123,527
TOTAL U.S. DEPARTMENT OF JUSTICE					121,833	1,291,861	-	1,293,555	123,527
<u>U.S. DEPARTMENT OF THE TREASURY</u>									
DIRECT:									
Low-Income Taxpayer Clinic Grant Program	21.008	21-LITC0437-03-00	01/01/22 - 12/31/22	\$ 100,000	22,379	97,226	-	99,987	25,140
TOTAL DIRECT U.S. DEPARTMENT OF THE TREASURY					22,379	97,226	-	99,987	25,140
PASSED THROUGH RUTHERFORD COUNTY, TENNESSEE									
Emergency Rental Assistance Program	21.023	N/A	09/15/21 - 09/14/22	\$ 91,595	-	37,307	-	37,316	9
Total PASSED THROUGH RUTHERFORD COUNTY, TENNESSEE					-	37,307	-	37,316	9

(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, 2022

Program Name	Assistance Listing Number		Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2021	Receipts	Program Income	Expenditures	Accrued (Deferred) Revenue 12/31/2022
<u>U.S. DEPARTMENT OF THE TREASURY (CONTINUED)</u>										
PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY										
American Recovery Plan (ARP)	COVID - 21.027	(1)	RS2022-1559	07/1/22 - 06/30/24	\$ 1,924,292	\$ -	\$ 481,073	\$ -	\$ 207,495	\$ (273,578)
TOTAL PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY						-	481,073	-	207,495	(273,578)
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>						<u>22,379</u>	<u>615,606</u>	<u>-</u>	<u>344,798</u>	<u>(248,429)</u>
<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	07/01/21 - 06/30/22	\$ 55,000	11,427	60,349	-	48,922	-
Legal Assistance - Title III Priority	93.044		2019-07	07/01/22 - 06/30/23	\$ 100,000	-	25,862	-	50,244	24,382
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL						11,427	86,211	-	99,166	24,382
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY:										
Legal Assistance - Title III Priority	93.044		06-2021-13	07/01/21 - 06/30/22	\$ 52,500	-	22,917	-	22,917	-
Legal Assistance - Title III Priority	93.044		06-2021-13	07/01/22 - 06/30/23	\$ 36,500	-	22,918	-	22,918	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY						-	45,835	-	45,835	-
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES:										
Temporary Assistance for Needy Families - SSI Representation	93.558		GR 34530-40618	07/01/21 - 06/30/22	N/A	39,657	149,990	-	110,333	-
Temporary Assistance for Needy Families - SSI Representation	93.558		GR 34530-40623	07/01/22 - 06/30/23	N/A	-	53,580	-	104,131	50,551
Temporary Assistance for Needy Families - Tennessee Opportunity Act	93.558		GR 34530-82422	12/31/21 - 03/31/22	\$ 5,978	-	5,327	-	5,327	-
Cycles of Success	93.558		GR 34530-71920	07/01/20 - 12/31/22	\$ 1,344,157	60,955	60,955	-	-	-
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES						100,612	269,852	-	219,791	50,551
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						<u>112,039</u>	<u>401,898</u>	<u>-</u>	<u>364,792</u>	<u>74,933</u>
TOTAL OF EXPENDITURES OF FEDERAL AWARDS						\$ (53,330)	\$ 6,418,424	\$ 63	\$ 6,442,924	\$ (28,893)

(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 ALN:

09.643040	\$ 4,279,079
14.408	69,986
14.218	56,652
14.537	34,062
16.575	1,293,555
21.008	99,987
21.023	37,316
COVID - 21.027	207,495
93.044	145,001
93.558	<u>219,791</u>

Total \$ 6,442,924

SEE NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS ON PAGE 28.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2022

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, 2022. 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, 2022.

NOTE 4 - STATE FINANCIAL ASSISTANCE

The Organization did not have any direct state assistance for the year ended December 31, 2022.



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, 2022

	Basic Field Grant	Private Attorney Involvement	TIG Grant	Disaster Emergency Relief Grant	Total
<b>SUPPORT AND REVENUE</b>					
Grants and contracts - LSC	\$ 3,738,648	\$ 485,566	\$ 49,715	\$ 87	\$ 4,274,016
Interest and investment income	63	-	-	-	63
Donated services	-	663,704	-	-	663,704
Total support and revenue	<u>3,738,711</u>	<u>1,149,270</u>	<u>49,715</u>	<u>87</u>	<u>4,937,783</u>
<b>PERSONNEL EXPENSES</b>					
Lawyers	1,541,619	149,430	-	-	1,691,049
Paralegals	439,945	2,658	-	-	442,603
Support staff	786,784	134,669	13,172	-	934,625
Employee benefits	261,085	71,023	3,365	-	335,473
Payroll taxes	194,464	21,262	1,008	-	216,734
Total personnel expenses	<u>3,223,897</u>	<u>379,042</u>	<u>17,545</u>	<u>-</u>	<u>3,620,484</u>
<b>OTHER EXPENSES</b>					
Donated services	-	663,704	-	-	663,704
Dues and fees	41,099	2,186	1,203	-	44,488
Court costs and litigation	2,023	-	-	-	2,023
Equipment rental and other	25,974	2,419	-	-	28,393
Insurance	21,997	1,866	-	-	23,863
Occupancy	179,618	38,528	-	-	218,146
Other	249	-	24,000	-	24,249
Postage	9,691	340	-	-	10,031
Printing and publications	30,448	2,424	-	-	32,872
Professional fees and contract services	63,388	46,519	1,500	-	111,407
Supplies	34,753	3,186	-	87	38,026
Telephone	20,615	2,359	-	-	22,974
Training	30,716	6,311	5,415	-	42,442
Travel	54,243	386	52	-	54,681
Total other expenses	<u>514,814</u>	<u>770,228</u>	<u>32,170</u>	<u>87</u>	<u>1,317,299</u>
<b>TOTAL EXPENSES</b>	<u>3,738,711</u>	<u>1,149,270</u>	<u>49,715</u>	<u>87</u>	<u>4,937,783</u>
<b>SUPPORT AND REVENUE OVER EXPENSES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CHANGES IN NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## 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, 2022, 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 25, 2023.

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, and therefore material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2022-001 that we consider to be a material weakness.

## 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*.

## ORGANIZATION'S RESPONSE TO FINDINGS

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## 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.

A handwritten signature in black ink that reads "Kraft+CPAs PLLC". The script is cursive and fluid, with the letters connected.

Nashville, Tennessee  
April 25, 2023

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, 2022. 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, 2022.

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.

*Kraft+CPAs PLLC*

Nashville, Tennessee

April 25, 2023

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2022

**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?   X   yes        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:

**Assistance Listing Number(s)                      Name of Federal Program or Cluster**

09.643040                      Legal Services Corporation - Basic Field Grant  
21.027 – COVID                      American Rescue Plan Act

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, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

**PRIOR YEAR**

There were no prior year findings.

**CURRENT YEAR**

**2022-001 Revenue Recognition for Conditional Federal Awards**

**CRITERIA**

Management is responsible for recording revenue in accordance with generally accepted accounting principles ("GAAP").

**CONDITION**

During the audit process, the audit team identified a new federal award program (passed through as Metro Right to Counsel) that was funded by a partial advance payment prior to year-end. On December 31, 2022, the full balance of the advance (\$481,073) was recorded as revenue, however the Organization had only expended \$207,495 of the award.

**CAUSE**

Most of the Organization's federal award programs (excluding LSC) are reimbursement-based awards and deferring any unspent funds at year-end was an oversight.

**EFFECT**

The effect of the adjustment was a \$273,578 reduction of federal, state and local awards and an increase in deferred revenue at December 31, 2022.

**RECOMMENDATION**

We recommend that when new sources of funding are received, an analysis is performed of the source of the funding and any restrictions or conditions that are placed on that funding to determine proper revenue recognition.

**MANAGEMENT'S RESPONSE**

Management agrees with the auditor's recommendation and will implement a plan to do so.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2022

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**PRIOR YEAR**

There were no prior year findings.

**CURRENT YEAR**

There are no current year findings.



**LEGAL AID SOCIETY**  
OF MIDDLE TENNESSEE AND THE CUMBERLANDS

Clarksville · Columbia · Cookeville · Gallatin · Murfreesboro · Nashville · Oak Ridge · Tullahoma

April 27, 2023

LAS Corrective Action Plan for Current Year Audit - 2022

**2022-001 Revenue Recognition for Conditional Federal Awards**

Cause

Most of the Organization's federal award programs (excluding LSC) are reimbursement-based awards and deferring any unspent funds at year-end was an oversight.

Corrective Action

Management takes responsibility for the oversight of not recording certain activity as deferred revenue. We have updated our accounting processes to address the oversight.

Person responsible - Anna Catlin, Director of Finance