

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

Recipient No. 618036

**Independent Auditor's Reports and Financial Statements
December 31, 2019 and 2018**



**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Bowling Green, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As described in Note 11 to the financial statements, in 2019, the Organization adopted Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of revenues, support and allocated expenses for satisfaction of program restrictions for Legal Services Corporation and other grants; schedule of revenues, support and allocated expenses for satisfaction of program restrictions for other grants; schedule of expenses for private attorney involvement; and the schedule of expenditures of federal awards required by Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2020, on our consideration of the Organization'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

Board of Directors
Cumberland Trace Legal Services, Inc.
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control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Bowling Green, Kentucky
April 3, 2020

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Statements of Financial Position
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 267,891	\$ 202,360
Client escrow funds	560	145
Investments – certificates of deposit	597,194	796,644
Grants receivable	260,270	216,419
Prepaid expenses and other	49,895	66,907
Total current assets	1,175,810	1,282,475
Property and Equipment		
Buildings and improvements	1,742,482	1,685,537
Furniture	139,256	94,009
Vehicles	-	59,568
Construction in process	102,035	-
	1,983,773	1,839,114
Less accumulated depreciation	573,508	636,326
	1,410,265	1,202,788
Long-term investments	1,108,199	1,013,906
Total assets	\$ 3,694,274	\$ 3,499,169

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 134,011	\$ 94,025
Accrued expenses	196,026	157,618
Client escrow funds	560	145
Deferred revenue	<u>337,096</u>	<u>344,156</u>
Total current liabilities	667,693	595,944
Deferred Revenue	<u>171,691</u>	<u>294,033</u>
Total liabilities	<u>839,384</u>	<u>889,977</u>
Net Assets		
Without donor restrictions – undesignated	1,122,447	1,106,882
Without donor restrictions – other program’s property	<u>1,053,721</u>	<u>1,049,821</u>
Total net assets without donor restrictions	<u>2,176,168</u>	<u>2,156,703</u>
With donor restrictions		
Legal Services Corporation	255,712	116,047
Legal Services Corporation property	356,544	152,966
Interest on Lawyer Trust Account	<u>66,466</u>	<u>183,476</u>
Total net assets with donor restrictions	<u>678,722</u>	<u>452,489</u>
Total net assets	<u>2,854,890</u>	<u>2,609,192</u>
Total liabilities and net assets	<u>\$ 3,694,274</u>	<u>\$ 3,499,169</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

Statements of Activities

Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Grants and contracts	\$ -	\$ 3,933,512	\$ 3,933,512	\$ -	\$ 3,393,867	\$ 3,393,867
Rental income	5,400	-	5,400	5,400	-	5,400
Court appointed attorney fees	5,995	-	5,995	14,596	-	14,596
Interest income	59,450	-	59,450	26,242	-	26,242
Other	86,555	-	86,555	90,965	-	90,965
Gain on disposition of property	64,036	-	64,036	6,376	-	6,376
Satisfaction of program restrictions	3,707,279	(3,707,279)	-	3,244,663	(3,244,663)	-
	<u>3,928,715</u>	<u>226,233</u>	<u>4,154,948</u>	<u>3,388,242</u>	<u>149,204</u>	<u>3,537,446</u>
Expenses						
Program services	3,427,110	-	3,427,110	2,799,946	-	2,799,946
Management and general	482,140	-	482,140	425,718	-	425,718
	<u>3,909,250</u>	<u>-</u>	<u>3,909,250</u>	<u>3,225,664</u>	<u>-</u>	<u>3,225,664</u>
Change in Net Assets	19,465	226,233	245,698	162,578	149,204	311,782
Net Assets, Beginning of Year	<u>2,156,703</u>	<u>452,489</u>	<u>2,609,192</u>	<u>1,994,125</u>	<u>303,285</u>	<u>2,297,410</u>
Net Assets, End of Year	<u>\$ 2,176,168</u>	<u>\$ 678,722</u>	<u>\$ 2,854,890</u>	<u>\$ 2,156,703</u>	<u>\$ 452,489</u>	<u>\$ 2,609,192</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Statements of Functional Expenses
Years Ended December 31, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Personnel Expenses						
Attorneys	\$ 1,320,181	\$ 129,615	\$ 1,449,796	\$ 1,090,114	\$ 127,435	\$ 1,217,549
Paralegals	296,592	-	296,592	284,137	-	284,137
Other	326,185	154,215	480,400	303,399	121,334	424,733
Employee benefits	735,058	145,065	880,123	607,656	130,921	738,577
Total personnel expenses	<u>2,678,016</u>	<u>428,895</u>	<u>3,106,911</u>	<u>2,285,306</u>	<u>379,690</u>	<u>2,664,996</u>
Other Expenses						
Occupancy	106,951	2,019	108,970	65,476	1,783	67,259
Equipment rental	44,162	129	44,291	16,858	72	16,930
Office supplies and expenses	57,012	9,520	66,532	50,124	5,301	55,425
Telephone	12,760	1,016	13,776	12,619	1,016	13,635
Travel	44,013	2,277	46,290	30,079	2,105	32,184
Training	43,052	904	43,956	27,756	4,435	32,191
Library	32,704	750	33,454	30,257	675	30,932
Insurance	18,318	917	19,235	20,460	917	21,377
Dues and fees	13,715	1,986	15,701	9,848	2,913	12,761
Audit	-	21,805	21,805	-	21,635	21,635
Litigation	3,153	-	3,153	1,245	-	1,245
Contract services to program	304,562	10,180	314,742	177,238	1,620	178,858
Depreciation and amortization	48,765	-	48,765	41,767	-	41,767
Other	19,927	1,742	21,669	30,913	3,556	34,469
Total other expenses	<u>749,094</u>	<u>53,245</u>	<u>802,339</u>	<u>514,640</u>	<u>46,028</u>	<u>560,668</u>
Total expenses	<u>\$ 3,427,110</u>	<u>\$ 482,140</u>	<u>\$ 3,909,250</u>	<u>\$ 2,799,946</u>	<u>\$ 425,718</u>	<u>\$ 3,225,664</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 245,698	\$ 311,782
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	48,765	41,767
Gain on sale of property and equipment	(64,036)	(6,376)
Changes in		
Grants receivable	(43,851)	118,017
Prepaid expenses	17,012	(24,616)
Accounts payable and accrued expenses	78,394	42,404
Other liabilities and client escrow funds	(128,987)	(144,282)
	<u>152,995</u>	<u>338,696</u>
Investing Activities		
Purchase of property and equipment	(291,106)	(47,920)
Proceeds from disposition of property and equipment	98,900	6,376
Net change in investments	105,157	(345,074)
	<u>(87,049)</u>	<u>(386,618)</u>
Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	65,946	(47,922)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>202,505</u>	<u>250,427</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u>\$ 268,451</u>	<u>\$ 202,505</u>
Cash and cash equivalents	\$ 267,891	\$ 202,360
Client escrow funds	560	145
	<u>\$ 268,451</u>	<u>\$ 202,505</u>

Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization) is a nonprofit corporation organized for the purpose of providing legal assistance in noncriminal proceedings or other matters to persons financially unable to afford legal assistance in western and south central Kentucky. The Organization is primarily funded through a grant from Legal Services Corporation (LSC), a nonprofit corporation established by Congress to administer a national legal assistance program.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of money market accounts and certificates of deposit.

At December 31, 2019, the Organization's cash accounts did not exceed federally insured limits.

Client Escrow Funds

The Organization receives funds from various clients to be held in trust for fees to be paid on behalf of clients. Accordingly, at December 31, 2019 and 2018, the Organization recorded a corresponding liability in the amount of the client escrow fund assets.

Investments

Investments consist of certificates of deposit, which are stated at cost, plus accrued interest, which approximate market. These certificates of deposit have interest rates ranging from 1.65% to 3.00% and maturity dates of 2020 to 2022.

Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid

Notes to Financial Statements December 31, 2019 and 2018

Grant Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources. Since the financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2019 and 2018, have been recorded as grants receivable.

Property and Equipment

Property and equipment are stated at cost if purchased, and at fair market value if donated, and are depreciated on the straight-line method over the estimated useful life of each asset. Property and equipment acquired with LSC funds are considered to be owned by the Organization while used in the program or in future authorized programs. However, LSC retains a reversionary interest in these assets, as well as the right to determine the use of any proceeds from the sales of these assets.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	40 years
Building improvements	40 years
Furniture and equipment	5–10 years
Vehicles	5–10 years

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Deferred Revenue

Revenue from the Bank of America settlement is deferred and recognized over the periods the Organization's staff perform legal services related to mortgage default foreclosure processes or other housing related issues. At December 31, 2019 and 2018, there were \$337,096 and \$344,156, respectively, of deferred revenue included in other current liabilities and \$171,691 and \$294,033, respectively, included in other liabilities in the statements of financial position.

Net Assets

Net assets with donor restrictions are those which use by the Organization has been limited by grantors or donors to a specific time period or purpose.

Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid

Notes to Financial Statements

December 31, 2019 and 2018

The Organization recognizes grant funds from LSC as support with donor restrictions until expended on LSC eligible activities. Property and equipment purchased with LSC funding are classified as net assets with donor restrictions, which are released from restriction as the related depreciation on such property and equipment is recognized. Funds remaining unexpended at the end of an accounting period are recorded as net assets with donor restrictions. In accordance with general LSC policy, the Organization may use unexpended funds in future periods for expenses in compliance with specific terms of the LSC grant.

At its discretion, LSC may request reimbursement of expenses or the return of unexpended funds as a result of noncompliance by the Organization with the terms of the grant. In addition, if the Organization terminates its LSC grant activities, all unexpended funds are to be returned to LSC.

The Organization recognizes Interest on Lawyer Trust Account (IOLTA) grant funds in the period received. Funds remaining unexpended at the end of an accounting period are recorded as net assets with donor restrictions until funds are expended in accordance with specific terms of the grant.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. However, pro bono activities were considered by management to be immaterial in the current and prior year.

Other Grant Support

The Organization recognizes grant funds as support on a straight-line basis over the grant period. Funds remaining unexpended at the end of an accounting period are recorded as net assets with or without donor restrictions.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Organization has been determined by the IRS to not be a private foundation within the meaning of Section 509(a) of the IRC.

The Organization files tax returns in the United States federal jurisdiction.

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Notes to Financial Statements
December 31, 2019 and 2018**

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and management and general categories based on grant agreements or on the basis appearing most reasonable to the Organization.

Subsequent Events

Subsequent events have been evaluated through April 3, 2020, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Grants and Contracts

The Organization's operations are funded by local county government filing fee allocations and various grants. Total revenues from these entities recognized for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
LSC	\$ 1,316,205	\$ 1,184,801
United Way	252,917	252,688
Access to Justice Foundation	140,666	90,904
Kentucky filing fees	614,972	629,952
U.S. Department of Health and Human Services – Title III	155,453	186,891
IOLTA	45,643	221,137
Kentucky Justice and Public Safety Cabinet	714,322	419,156
Office on Violence Against Women	247,985	204,106
Other	445,349	204,232
	<u>\$ 3,933,512</u>	<u>\$ 3,393,867</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Notes to Financial Statements
December 31, 2019 and 2018**

Note 3: Grant Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2019, have been recorded as grants receivable. Following are the grant commitments that extend beyond December 31, 2019:

Grant	Term	Grant Amount	Earned as of December 31, 2019	Funding Available
<i>Victims of Crime Act Grant (VOCA)</i>	10/1/2019–9/30/2020	\$ 947,964	\$ 159,664	\$ 788,300
Office on Violence Against Women	10/1/2016–9/30/2022	\$ 1,199,950	\$ 646,755	\$ 553,195
United Way	7/1/2019–6/30/2020	\$ 261,564	\$ 129,727	\$ 131,837

The Organization also receives funding under grants from the Administration on Aging Special Programs for the Aging. These grants extend through June 30, 2020, and the grants are awarded based on the quantity of hourly services provided to clients.

Note 4: Legal Services Corporation Expenditures

For purposes of providing legal services to low income individuals, LSC provides limited advances of the minimum amounts necessary for immediate disbursement needs. Any carryover funds in excess of 10% of LSC support require approval from LSC. Support includes the annual LSC grant award and reimbursements from other sources.

	2019	2018
LSC grant awarded	\$ 1,316,205	\$ 1,184,801
Interest income and other reimbursements	64,850	31,692
Total LSC support	<u>\$ 1,381,055</u>	<u>\$ 1,216,493</u>
10% of total LSC support	<u>\$ 138,106</u>	<u>\$ 121,649</u>
Carryover funds (cumulative net assets utilized)	<u>\$ 255,712</u>	<u>\$ 116,047</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

Notes to Financial Statements

December 31, 2019 and 2018

Note 5: Property and Equipment

Property and equipment at December 31, 2019 and 2018 consists of:

	LSC	Non-LSC	2019
Buildings and improvements	\$ 342,058	\$ 1,400,424	\$ 1,742,482
Furniture	26,050	113,206	139,256
Construction in progress	102,035	-	102,035
	<u>470,143</u>	<u>1,513,630</u>	<u>1,983,773</u>
Less accumulated depreciation	<u>113,599</u>	<u>459,909</u>	<u>573,508</u>
	<u><u>\$ 356,544</u></u>	<u><u>\$ 1,053,721</u></u>	<u><u>\$ 1,410,265</u></u>
	LSC	Non-LSC	2018
Buildings and improvements	\$ 288,433	\$ 1,397,104	\$ 1,685,537
Furniture	20,000	74,009	94,009
Vehicles	-	59,568	59,568
	<u>308,433</u>	<u>1,530,681</u>	<u>1,839,114</u>
Less accumulated depreciation	<u>155,467</u>	<u>480,859</u>	<u>636,326</u>
	<u><u>\$ 152,966</u></u>	<u><u>\$ 1,049,822</u></u>	<u><u>\$ 1,202,788</u></u>

Note 6: Pension Plan

Plan Description

The Organization contributes to the Kentucky Retirement Systems Employee Pension Plan (Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Kentucky. Pension expense is recorded for the amount the Organization is contractually required to contribute for the year. The Plan provides retirement and disability benefits, including annual cost of living adjustments and death benefits to Plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the Plan's board of trustees, which is appointed by the governor with the approval of the State Legislature. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan at 1260 Louisville Road, Frankfort, KY 40601, or by calling 800.928.4646.

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Notes to Financial Statements
December 31, 2019 and 2018**

Funding Policy

The authority to establish and amend requirements of Plan members and the Organization is set forth in state law and is vested in the Plan's board of trustees. The Organization is required to contribute at an actuarially determined rate. For 2019, the Organization contributed 21.48% of each participant's salary from January through June and contributed 24.06% from July through December. For 2018, the Organization contributed 19.18% of each participant's salary from January through June and contributed 21.48% of each participant's salary from July through December. Contributions to the Plan for 2019 and 2018, were \$452,696 and \$352,083, respectively, which equaled the required contributions for each year.

Note 7: Operating Leases

Noncancellable operating leases for office space expire in various years through 2021.

Future minimum lease payments at December 31, 2019, were:

2020	\$ 22,800
2021	<u>19,000</u>
	<u>\$ 41,800</u>

The Organization incurred certain short-term leasing arrangements for office space and small equipment. Total rent expense incurred for 2019 and 2018, was \$78,781 and \$29,486, respectively.

Note 8: Private Attorney Involvement

LSC provides funding of private attorney involvement based upon a minimum of 12.50% of the total LSC grant. Total funding utilized for private attorney involvement totaled \$163,966 and \$159,956 for 2019 and 2018, respectively.

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Notes to Financial Statements
December 31, 2019 and 2018**

Note 9: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 267,891	\$ 202,360
Investments – certificates of deposit	<u>597,194</u>	<u>796,644</u>
	<u>\$ 865,085</u>	<u>\$ 999,004</u>

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenue

Approximately 33% and 35% of the Organization’s grant revenues for the years 2019 and 2018, respectively, were funded through grants from LSC.

Note 11: Change in Accounting Principle

In 2019, the Organization changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in the client escrow funds being included with cash and cash equivalents within the statements of cash flows.

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

Notes to Financial Statements

December 31, 2019 and 2018

Note 12: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to not have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Schedule of Revenues, Support and Allocated Expenses for Satisfaction of
Program Restrictions for Legal Services Corporation and Other Grants
(with Comparative Information for Prior Year)
Years Ended December 31, 2019 and 2018**

	2019						2018	
	Non-LSC Grants	Basic Field Grants	Rural Summer Legal Corps Fellow	Subtotal	LSC Property	Other Property	Total	Total
Revenues, Gains and Other Support								
Grants and contracts	\$ 2,617,307	\$ 1,311,205	\$ 5,000	\$ 3,933,512	\$ -	\$ -	\$ 3,933,512	\$ 3,393,867
Rental income	-	5,400	-	5,400	-	-	5,400	5,400
Court appointed attorney fees	5,995	-	-	5,995	-	-	5,995	14,596
Interest income	-	59,450	-	59,450	-	-	59,450	26,242
Gain on property	-	-	-	-	55,036	9,000	64,036	6,376
Other income	86,555	-	-	86,555	-	-	86,555	90,965
Total revenues, gains and other support	<u>2,709,857</u>	<u>1,376,055</u>	<u>5,000</u>	<u>4,090,912</u>	<u>55,036</u>	<u>9,000</u>	<u>4,154,948</u>	<u>3,537,446</u>
Allocated Expenses								
Personnel expenses								
Attorneys	1,170,679	279,117	-	1,449,796	-	-	1,449,796	1,217,549
Paralegals	236,950	59,642	-	296,592	-	-	296,592	284,137
Other	318,209	162,191	-	480,400	-	-	480,400	424,733
Employee benefits	496,572	383,551	-	880,123	-	-	880,123	738,577
Total personnel expenses	<u>2,222,410</u>	<u>884,501</u>	<u>-</u>	<u>3,106,911</u>	<u>-</u>	<u>-</u>	<u>3,106,911</u>	<u>2,664,996</u>
Other expenses								
Occupancy	82,464	26,506	-	108,970	-	-	108,970	67,259
Equipment rental	34,948	9,343	-	44,291	-	-	44,291	16,930
Office supplies and expenses	51,076	15,456	-	66,532	-	-	66,532	55,425
Telephone	9,474	4,302	-	13,776	-	-	13,776	13,635
Travel	40,451	5,839	-	46,290	-	-	46,290	32,184
Training	39,108	4,848	-	43,956	-	-	43,956	32,191
Library	24,228	9,226	-	33,454	-	-	33,454	30,932
Insurance	12,852	6,383	-	19,235	-	-	19,235	21,377
Dues and fees	15,701	-	-	15,701	-	-	15,701	12,761
Audit	12,615	9,190	-	21,805	-	-	21,805	21,635
Litigation	2,159	994	-	3,153	-	-	3,153	1,245
Contract services to program	220,864	88,878	5,000	314,742	-	-	314,742	178,858
Depreciation	-	-	-	-	10,148	38,617	48,765	41,767
Other	9,435	12,234	-	21,669	-	-	21,669	34,469
Total other expenses	<u>555,375</u>	<u>193,199</u>	<u>5,000</u>	<u>753,574</u>	<u>10,148</u>	<u>38,617</u>	<u>802,339</u>	<u>560,668</u>
Total allocated expenses	<u>2,777,785</u>	<u>1,077,700</u>	<u>5,000</u>	<u>3,860,485</u>	<u>10,148</u>	<u>38,617</u>	<u>3,909,250</u>	<u>3,225,664</u>
Revenues, Gains and Other Support over (Under) Allocated Expenses	<u>(67,928)</u>	<u>298,355</u>	<u>-</u>	<u>230,427</u>	<u>44,888</u>	<u>(29,617)</u>	<u>245,698</u>	<u>311,782</u>
Other Changes in Net Assets								
Cash received from property	9,000	89,900	-	98,900	(89,900)	(9,000)	-	-
Acquisition of property	(42,517)	(248,590)	-	(291,107)	248,590	42,517	-	-
Change in Net Assets	<u>(101,445)</u>	<u>139,665</u>	<u>-</u>	<u>38,220</u>	<u>203,578</u>	<u>3,900</u>	<u>245,698</u>	<u>311,782</u>
Net Assets, Beginning of Year	<u>1,290,358</u>	<u>116,047</u>	<u>-</u>	<u>1,406,405</u>	<u>152,966</u>	<u>1,049,821</u>	<u>2,609,192</u>	<u>2,297,410</u>
Net Assets, End of Year	<u>\$ 1,188,913</u>	<u>\$ 255,712</u>	<u>\$ -</u>	<u>\$ 1,444,625</u>	<u>\$ 356,544</u>	<u>\$ 1,053,721</u>	<u>\$ 2,854,890</u>	<u>\$ 2,609,192</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Schedule of Revenues, Support and Allocated Expenses for Satisfaction of
Program Restrictions for Other Grants
(with Comparative Information for Prior Year)
Years Ended December 31, 2019 and 2018**

	2019				2018	
	Title III	IOLTA Grant	State Grants	Other Non-LSC Grants	Total	Total
Revenues, Gains and Other Support						
Grants and contracts	\$ 155,453	\$ 45,643	\$ 140,666	\$ 2,275,545	\$ 2,617,307	\$ 2,209,066
Court appointed attorney fees	-	-	5,995	-	5,995	14,596
Gain on property	-	-	-	9,000	9,000	5,126
Other income	164	-	-	86,391	86,555	90,915
	<hr/>					
Total revenues, gains and other support	155,617	45,643	146,661	2,370,936	2,718,857	2,319,703
<hr/>						
Allocated Expenses						
Personnel expenses						
Attorneys	48,550	82,610	50,823	988,696	1,170,679	824,573
Paralegals	13,559	26,794	25,899	170,698	236,950	179,254
Other	45,467	23,289	30,480	218,973	318,209	247,840
Employee benefits	40,370	26,851	11,666	417,685	496,572	388,417
	<hr/>					
Total personnel expenses	147,946	159,544	118,868	1,796,052	2,222,410	1,640,084
<hr/>						
Other expenses						
Occupancy	-	129	-	82,335	82,464	34,993
Equipment rental	2,181	251	1,844	30,672	34,948	8,813
Office supplies and expenses	4,958	682	-	45,436	51,076	29,732
Telephone	1,485	845	-	7,144	9,474	7,031
Travel	3,818	210	-	36,423	40,451	23,190
Training	1,795	520	-	36,793	39,108	27,469
Library	169	-	-	24,059	24,228	15,584
Insurance	458	-	-	12,394	12,852	14,037
Dues and fees	-	55	13,861	1,785	15,701	12,761
Audit	1,026	417	1,147	10,025	12,615	11,040
Litigation	-	-	-	2,159	2,159	544
Contract services to program	2,063	-	10,180	208,621	220,864	147,922
Other	1,341	-	761	7,333	9,435	17,304
	<hr/>					
Total other expenses	19,294	3,109	27,793	505,179	555,375	350,420
	<hr/>					
Total allocated expenses	167,240	162,653	146,661	2,301,231	2,777,785	1,990,504
<hr/>						
Revenues, Gains and Other Support over (Under) Allocated Expenses	(11,623)	(117,010)	-	69,705	(58,928)	329,199
<hr/>						
Other Changes in Net Assets						
Acquisition of property	-	-	-	(42,517)	(42,517)	(27,920)
	<hr/>					
Change in Net Assets	(11,623)	(117,010)	-	27,188	(101,445)	301,279
	<hr/>					
Net Assets, Beginning of Year	16,226	183,476	-	1,090,656	1,290,358	989,079
	<hr/>					
Net Assets, End of Year	\$ 4,603	\$ 66,466	\$ -	\$ 1,117,844	\$ 1,188,913	\$ 1,290,358
	<hr/>					

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Expenses for Private Attorney Involvement
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Personnel Expenses		
Attorneys	\$ 26,263	\$ 21,505
Paralegals	1,328	1,788
Other	27,102	55,962
Employee benefits	<u>24,889</u>	<u>27,765</u>
Total personnel expenses	<u>79,582</u>	<u>107,020</u>
Other Expenses		
Occupancy	3,073	881
Equipment rental	1,249	222
Office supplies and expenses	1,735	726
Telephone	388	179
Travel	1,305	422
Training	1,240	422
Library	943	405
Insurance	542	280
Dues and fees	443	167
Audit	615	283
Contract services to program	72,851	28,692
Other	<u>-</u>	<u>20,257</u>
Total other expenses	<u>84,384</u>	<u>52,936</u>
Total expenses	<u>\$ 163,966</u>	<u>\$ 159,956</u>

**Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid**

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
U.S. Office of Inspector General/ Legal Services Program	09.618036		\$ -	\$ 943,436
Rural Intern Summer Legal Corps Student Fellowship			-	5,000
Capital Expenditure for Renovation			-	242,540
Capital Expenditure for Website			-	6,050
			<u>-</u>	<u>1,197,026</u>
U.S. Department of Health and Human Services Administration on Aging/Barren River Area Development District/Special Programs for the Aging – Title VII Chapter 3 – Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	AS-2018-2019-0404	-	3,524
U.S. Department of Health and Human Services Aging Cluster; Administration on Aging/Special Programs for the Aging – Title III, for Supportive Services and Senior Centers				
Barren River Area Development District	93.044	AS-2018-2019-0404	-	76,257
Purchase Area Development District	93.044	PON2 725 1700002624 1	-	10,385
Pennyrile Area Development District	93.044	M-05154452(3)	-	12,690
Green River Area Development District	93.044	20*1251-11	-	16,515
			<u>-</u>	<u>115,847</u>
U.S. Department of Health and Human Services Administration on Aging/Barren River Area Development District/Special Programs for the Aging – Title VII Ombudsman	93.042	AS-2018-2019-0404	-	5,898
U.S. Department of Health and Human Services Administration on Aging/Barren River Area Development District/Centers for Medicare and Medicaid Services (CMS) Research Aging – State Health Insurance Assistance Programs	93.779	AS-2018-2019-0404	-	23,280
U.S. Department of Health and Human Services Administration on Aging/Barren River Area Development District/Lifespan Respite Care Program – Medicare Improvements for Patients and Providers Act – State Health Insurance Assistance	93.071	AS-2018-2019-0404	-	18,690
U.S. Department of Justice, Office on Violence Against Women/Legal Assistance for Victims	16.524	2016-WL-AX-0048	-	247,985
U.S. Department of Housing and Urban Development/West Tennessee Legal Services/ Housing Counseling Assistance Program	14.169	HC-1800-11022/HC-1900-11022	-	41,356
U.S. Department of Justice, Office on Violence Against Women/Kentucky Justice and Public Safety Cabinet/Victims of Crime Act Grant (VOCA)	16.575	VOCA-2019-CUMBERLAND-00063 and VOCA-2018-CUMBERLAND 01915	-	714,322
			<u>\$ -</u>	<u>\$ 2,367,928</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2, *United States Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable, or are limited, as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected to use 10% *de minimis* indirect cost rate allowed under Uniform Guidance. The Legal Services Program grant is considered to be high risk.

**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***

Independent Auditor's Report

Board of Directors
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Bowling Green, Kentucky

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 Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization), which comprise the statement of financial position as of December 31, 2019, 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 3, 2020, which contained an emphasis of matter paragraph regarding a change in accounting principle.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

BKD, LLP

Bowling Green, Kentucky
April 3, 2020

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Directors
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Bowling Green, Kentucky

Report on Compliance for the Major Federal Program

We have audited Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid's (Organization) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the Legal Services Corporation *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Legal Services Corporation Audit Guide*. Those standards and the Uniform Guidance and the *Legal Service Corporation Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance and with the *Legal Service Corporation Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Page 3

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 *Legal Services Corporation Audit Guide*. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Bowling Green, Kentucky
April 3, 2020

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimed

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

7. The Organization's major program was:

Cluster/Program	CFDA Number
Legal Services Corporation	09.618036

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee?

Yes No

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2019-001	<p>Criteria or specific requirement: Management is responsible for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Condition: Management identified during the year a clerical error with an amount recorded as revenue versus deferred revenue in the prior year, but all of the funding was expended in the current year.</p> <p>Effect: The financial statements did not properly reflect the deferred revenue balance in the prior year but was corrected in the current year as all funding was properly expended for the required purpose.</p> <p>Cause: A clerical error occurred when the check received was received.</p> <p>Recommendation: Management to continue to review check reconciliations.</p> <p>Views of responsible officials and planned corrective action: We agree with the auditor's comments and will continue to review check receipts closely and perform revenue reconciliations designed to identify clerical recording errors. On or about November 20, 2018, KLA received via mail a check from the Kentucky IOLTA Fund for \$117,010.50. KLA receives multiple payments from IOLTA for two distinct grants, but both grants are paid from the Kentucky IOLTA Fund banking accounts. One IOLTA grant is deferred revenue while the other grant is current revenue. The check received should have been deferred but was erroneously posted in December 2018 as current revenue. KLA's Financial Administrator discovered the clerical recording error in 2019 while reviewing controls in place for revenue reconciliation. She immediately contacted the auditor to disclose the prior year's clerical recording error. As the 2018 financial statement had already been released, the error was corrected in the 2019 financial statement. All revenue was expended for the required purpose in the current year and internal controls operated successful to identify the error.</p>

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
	No matters are reportable.	

Financial Oversight Committee
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Bowling Green, Kentucky

As part of our audits of the financial statements and compliance of Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization) as of and for the year ended December 31, 2019, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*

An audit performed 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 and U.S. Office of Management and Budget (OMB) Uniform Guidance is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Organization's significant accounting policies are described in Note 1 of the audited financial statements.

Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

Effective January 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all grants and contributions received and clarifies the accounting guidance applicable for grant accounting.

Historically, there was diversity in practice for accounting for grants. Some grantees considered grants to be an exchange transaction, whereas others reported grants as donor-restricted contributions. ASU 2018-08 provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (an exchange transaction), the grant should be considered a contribution. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional contribution. Under the accounting guidance, conditional contributions are not recorded as revenue until the condition has been met.

In implementing ASU 2018-08, the Organization was required to evaluate all grant agreements. Adoption of the ASU did not cause a change in the timing and classification of grant revenues.

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions, as well as general accounting policies, as follows:

- In connection with the adoption of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, management has elected an accounting policy that conditional contributions having donor stipulations, which are satisfied in the period the gift is received, are recorded as revenue and net assets without donor restrictions

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- No matters are reportable

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- No matters are reportable

Audit Adjustment

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments, which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. One adjustment proposed was not recorded because the effect is not currently material.

Areas in which adjustments were proposed include:

Proposed Audit Adjustment Recorded

- No matters are reportable

Proposed Audit Adjustment Not Recorded

- Attached is a summary of an uncorrected misstatement we noted during the current engagement and pertaining to the latest period presented that was determined by management to be immaterial, but more than trivial to the financial statements as a whole

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Organization's application of accounting principles:

- No matters are reportable

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Organization as of and for the year ended December 31, 2019, 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, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our audit procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be a significant deficiency.

Refer to the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

The Organization's written response to the significant deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

* * * * *

This communication is intended solely for the information and use of the financial oversight committee, board of directors, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Bowling Green, Kentucky
April 3, 2020

Attachments



KENTUCKY LEGAL AID

1700 Destiny Lane
Bowling Green, Kentucky
42104
270.782.1924
www.klaid.org

Serving:

- Allen County
- Ballard County
- Barren County
- Butler County
- Caldwell County
- Calloway County
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- Daviess County
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- Logan County
- Lyon County
- Marshall County
- McCracken County
- McLean County
- Metcalf County
- Muhlenberg County
- Ohio County
- Simpson County
- Taylor County
- Todd County
- Trigg County
- Union County
- Warren County
- Webster County

April 3, 2020

BKD, LLP
Certified Public Accountants
P.O. Box 1196
Bowling Green, KY 42102-1196

We are providing this letter in connection with your audits of our financial statements as of and for the years ended December 31, 2019 and 2018, and your audit of our compliance with requirements applicable to each of our major federal awards programs as of and for the year ended December 31, 2019. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

- 1) We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated December 10, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- 2) We acknowledge our responsibility for 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.
- 3) We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Real Professionals Helping Real People In Real Crisis



Funded in part by: The Legal Services Corporation, Commonwealth of Kentucky, Older Americans Act, HUD, KBA, IOLTA and United Way. This project is also funded in part under contracts and/or master agreements with the GRADD, PADD, PEADD, BRADD, Kentucky Department for Aging and Independent Living, Kentucky Cabinet for Health and Family Services with funds from the U.S. Department of Health and Human Services. Kentucky Legal Aid does not discriminate on the basis of race, color, national origin, sex, religion, age, veteran status or disability in employment or the provision of services.

April 3, 2020

- 4) We acknowledge Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization) is not a conduit debt obligor whose debt securities are listed, quoted or traded on an exchange or an over-the-counter market. As a result, we acknowledge the Organization does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.
- 5) We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
- 6) We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of board of directors’ (board) meetings held through the date of this letter.
 - (e) All significant contracts and grants.
- 7) All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 8) We have informed you of all current risks of a material amount that are not adequately prevented or detected by Organization procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net assets.
- 9) We believe the effect of the uncorrected financial statement misstatement summarized in the attached schedule is immaterial to the financial statements taken as a whole.
- 10) We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

April 3, 2020

- 11) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, customers, regulators, suppliers or others.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families; subsidiaries accounted for by the equity method; and any other party with which the Organization may deal if the Organization can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Organization.
- 14) Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the statement of financial position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Organization is contingently liable.
- 15) We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- 16) We have no reason to believe the Organization owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

- 17) We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
- 18) Except as disclosed in the financial statements, the Organization has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
- 19) The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 20) The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
- 21) We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
- 22) With respect to any nonattest services you have provided us during the year: including preparation of the notes of the financial statements:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

- (d) We have evaluated the adequacy of the services performed and any findings that resulted.
- 23) We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code (Code) and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
- 24) We have identified to you any activities conducted having both fundraising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification 958-720-45.
- 25) We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
- 26) We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
- 27) We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
- 28) We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
- 29) We have a process to track the status of audit findings and recommendations.
- 30) We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
- 31) We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

April 3, 2020

- 32) With regard to federal awards programs:
- (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.
 - (b) We have identified the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations.
 - (c) We are responsible for complying, and have complied, with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
 - (d) We are responsible to understand and comply with the requirements of federal statutes, regulations and the terms and conditions of federal awards related to each of our federal awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the Organization has complied with all applicable compliance requirements.
 - (e) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards programs in compliance with federal statutes, regulations and the terms and conditions of the federal awards.
 - (f) We have made available to you all federal awards (including amendments, if any) and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.
 - (g) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.
 - (h) The costs charged to federal awards are in accordance with applicable cost principles.

April 3, 2020

- (i) The reports provided to you related to federal awards programs are true copies of reports submitted or electronically transmitted to the federal awarding agency, the applicable payment system or pass-through entity in the case of a subrecipient.
 - (j) Amounts claimed or used for matching were determined in accordance with the Uniform Guidance regarding cost principles.
 - (k) We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.
 - (l) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.
 - (m) Except as described in the schedule of findings and questioned costs, we are in agreement with the findings contained therein and our views regarding any disagreements with such findings are consistent, as of the date of this letter, with the description thereof in that schedule.
 - (n) We are responsible for taking corrective action on any audit findings and have developed a corrective action plan that meets the requirements of Uniform Guidance.
 - (o) The summary schedule of prior audit findings correctly states the status of all audit findings of the prior audit's schedule of findings and questioned costs and any uncorrected open findings included in the prior audit's summary schedule of prior audit findings as of the date of this letter.
 - (p) The reporting package does not contain any protected personally identifiable information.
- 33) With regard to supplementary information:
- (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

April 3, 2020

- (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.
- 34) We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.
- 35) We acknowledge the current economic situation presents difficult circumstances and challenges for the not-for-profit industry. Not-for-profit organizations are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and potential difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for grants receivable, etc. that could negatively impact the Organization's ability to maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Organization's financial statements. Further, management and the board are solely responsible for all aspects of managing the Organization, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.
- 36) With regard to compliance with Legal Services Corporation (LSC) requirements as specified in the Code of Federal Regulations, Title 45 (Code sections indicated for each item below):
- (a) Section 1604 – Full-time attorneys did not participate in outside compensated practice during 2019.
 - (b) Section 1608 – No LSC funds were contributed to any political party or association to the campaign of any candidate for public or party office during the year ended December 31, 2019.
 - (c) Section 1609 – During the year ended December 31, 2019, no fee generating cases were accepted by the Organization.
 - (d) Section 1610 – Neither the Organization, its staff or its board have entered into agreements or contracts with organizations or individuals engaged in restricted activities as prohibited by the *LSC Act*.

- (e) Section 1610 – No payments or transfers were made during the year ended December 31, 2019, to organizations or individuals that are known to be involved in restricted activities as prohibited by the *LSC Act*.
- (f) Section 1612 – No written requests related to lobbying or certain other restricted activities have been received from a governmental agency or official, elected official, legislative body, committee or member thereof by the Organization or its employees during the year ended December 31, 2019.
- (g) Section 1612 – The Organization did not employ any registered lobbyists during the year ended December 31, 2019.
- (h) Section 1617 – The Organization did not initiate or participate in any class action cases during the year ended December 31, 2019.
- (i) Section 1620 – The Organization did not undertake any emergency cases or matters during the year ended December 31, 2019.
- (j) Section 1627 – The Organization did not subgrant any LSC funds to another Organization during the year ended December 31, 2019.
- (k) Section 1627 – During the year ended December 31, 2019, no LSC funds were used for private attorney contracts in excess of \$25,000.
- (l) Section 1628 – The Organization’s LSC carryover fund balance from the previous year did not exceed the 10% threshold requiring LSC approval.
- (m) Section 1630 – During the year ended December 31, 2019, no LSC funds were used for pre-award costs incurred after the cessation of funding; however, during the current year, the Organization did obtain approval for the use of LSC funds for the capital improvement projects for Owensboro and Madisonville for the purchase of real property and capital expenditures exceeding \$25,000.
- (n) Section 1630 – During the year ended December 31, 2019, the Organization did not derive income from any activity supported by LSC funds.
- (o) Section 1632 – During the year ended December 31, 2019, the Organization did not have any cases related to redistricting.
- (p) Section 1633 – During the year ended December 31, 2019, the Organization did not have any cases involving drug-related eviction proceedings.
- (q) Section 1637 – During the year ended December 31, 2019, the Organization did not have any cases involving incarcerated clients.

April 3, 2020

- 37) During the year, assets were disposed and the proceeds from the disposal were not restricted by LSC.

CUMBERLAND TRACE LEGAL SERVICES, INC. d/b/a KENTUCKY LEGAL AID



Amanda Young
Executive Director



Jill Moore
Financial Administrator

Attachment

Kentucky Legal Aid

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" and "Schedule of Uncorrected Misstatements (Notes to the Financial Statements)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE AND QUALITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	1,175,810	0	1,175,810	0.00%
Non-Current Assets	2,518,464	0	2,518,464	0.00%
Current Liabilities	(667,693)	0	(667,693)	0.00%
Non-Current Liabilities	(171,691)	0	(171,691)	0.00%
Current Ratio	1.76		1.76	0.00%
Total Assets	3,694,274	0	3,694,274	0.00%
Total Liabilities	(839,384)	0	(839,384)	0.00%
Net Assets	(2,854,890)	0	(2,854,890)	0.00%
Capital & Other Equity	0	0	0	0.00%
Total Net Assets	(2,854,890)	0	(2,854,890)	0.00%
Revenues & Income	(4,154,948)	(117,010)	(4,271,958)	2.82%
Costs & Expenses	3,909,250	0	3,909,250	0.00%
Change in Net Assets	(245,698)	(117,010)	(362,708)	47.62%

Misstatements within Notes to the Financial Statements

1 2018 Deferred Revenue amount should have included \$117,011 received in 2019.
See PAJE

SCHEDULE OF UNCORRECTED MISSTATEMENTS (NOTES TO THE FINANCIAL STATEMENT)

	Uncorrected and/or Omitted Disclosure (Include Guidance Reference)	Misstatement Type	Quantitative Amount(s)	Relevant Financial Statement Line(s)
1	2018 Deferred Revenue amount should have included \$117,011 received in 2019. See PAJE	Uncorrected	117,011	Deferred Revenue, Net Assets



Amanda Anderson Young
Executive Director

Schedule of Findings and Questioned Costs

Corrective Action Plan

Year Ended December 31, 2019

Government Auditing Standards

Finding 2019-001 - Properly recording deferred revenue in the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Corrective Action Plan: We agree with the auditor’s comments and will continue to review check receipts closely and perform revenue reconciliations designed to identify clerical recording errors. On or about November 20, 2018, KLA received via mail a check from the Kentucky IOLTA Fund for \$117,010.50. KLA receives multiple payments from IOLTA for two distinct grants but both grants are paid from the Kentucky IOLTA Fund banking accounts. One IOLTA grant is deferred revenue while the other grant is current revenue. The check received should have been deferred but was erroneously posted in December 2018 as current revenue. KLA’s Financial Administrator discovered the clerical recording error in 2019 while reviewing controls in place for revenue reconciliation. She immediately contacted the auditor to disclose the prior year’s clerical recording error. As the 2018 financial statement had already been released, the error was corrected in the 2019 financial statement. All revenue was expended for the required purpose in the current year and internal controls operated successful to identify the error.

Contact Person: Jill Moore

Implemented and Corrected: February 28, 2019

Uniform Guidance

No matters are reportable

Sincerely,

Jill Moore
Jill Moore
Financial Administrator

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Funded in Part By: The Legal Services Corporation, Commonwealth of Kentucky, Older Americans Act, HUD, KBA, IOLTA, and United Way. This project is also funded in part under contracts and/or master agreements with the GRADD, PADD, PEADD, BRADD, Kentucky Department for Aging and Independent Living, Kentucky Cabinet for Health and Family Services with funds from the U.S. Department of Health and Human Services.

Kentucky Legal Aid does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

A non-profit corporation serving low income persons in Allen, Ballard, Barren, Butler, Caldwell, Calloway, Carlisle, Christian, Crittenden, Daviess, Edmonson, Fulton, Graves, Green, Hancock, Hart, Henderson, Hickman, Hopkins, Livingston, Logan, Lyon, McCracken, McLean, Marshall, Metcalfe, Muhlenberg, Ohio, Simpson, Taylor, Todd, Trigg, Union, Warren and Webster Counties.