

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

Recipient No. 618036

**Independent Auditor's Reports and Financial Statements
December 31, 2021 and 2020**



Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
December 31, 2021 and 2020

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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 Audit of the Financial Statements

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

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 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary 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 8, 2022, 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 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

Louisville, Kentucky
April 8, 2022

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Statements of Financial Position
December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 56,403	\$ 323,869
Client escrow funds	685	6,424
Investments – certificates of deposit	410,241	980,845
Grants receivable	401,578	403,949
Prepaid expenses and other	59,474	48,077
Total current assets	928,381	1,763,164
Property and Equipment		
Buildings and improvements	1,983,898	1,973,098
Furniture and equipment	169,912	169,912
Construction in process	224,593	-
	2,378,403	2,143,010
Less accumulated depreciation	690,999	621,464
	1,687,404	1,521,546
Long-term investments	959,499	592,160
Total assets	\$ 3,575,284	\$ 3,876,870

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Accounts payable	\$ 160,326	\$ 134,207
Accrued expenses	157,471	170,675
Client escrow funds	685	6,424
Deferred revenue	<u>353,423</u>	<u>396,726</u>
Total current liabilities	671,905	708,032
Deferred Revenue	<u>240,785</u>	<u>474,525</u>
Total liabilities	<u>912,690</u>	<u>1,182,557</u>
Net Assets		
Without donor restrictions – undesignated	936,029	1,133,606
Without donor restrictions – other program’s property	<u>1,226,632</u>	<u>1,062,335</u>
Total net assets without donor restrictions	<u>2,162,661</u>	<u>2,195,941</u>
With donor restrictions		
Legal Services Corporation property	460,772	459,211
Interest on Lawyer Trust Account	<u>39,161</u>	<u>39,161</u>
Total net assets with donor restrictions	<u>499,933</u>	<u>498,372</u>
Total net assets	<u>2,662,594</u>	<u>2,694,313</u>
Total liabilities and net assets	<u>\$ 3,575,284</u>	<u>\$ 3,876,870</u>

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

Statements of Activities

Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Grants and contracts	\$ -	\$ 4,204,665	\$ 4,204,665	\$ -	\$ 4,034,818	\$ 4,034,818
Rental income	5,400	-	5,400	5,400	-	5,400
Court appointed attorney fees	1,800	-	1,800	5,250	-	5,250
Interest income	-	-	-	30,114	-	30,114
Other	89,772	-	89,772	91,941	-	91,941
Satisfaction of program restrictions	4,203,104	(4,203,104)	-	4,215,168	(4,215,168)	-
	<u>4,300,076</u>	<u>1,561</u>	<u>4,301,637</u>	<u>4,347,873</u>	<u>(180,350)</u>	<u>4,167,523</u>
Total revenues, gains and other support						
Expenses						
Program services	3,765,852	-	3,765,852	3,584,959	-	3,584,959
Management and general	567,504	-	567,504	487,429	-	487,429
	<u>4,333,356</u>	<u>-</u>	<u>4,333,356</u>	<u>4,072,388</u>	<u>-</u>	<u>4,072,388</u>
Total expenses						
Change in LSC guidance	-	-	-	(255,712)	-	(255,712)
Change in Net Assets	(33,280)	1,561	(31,719)	19,773	(180,350)	(160,577)
Net Assets, Beginning of Year	<u>2,195,941</u>	<u>498,372</u>	<u>2,694,313</u>	<u>2,176,168</u>	<u>678,722</u>	<u>2,854,890</u>
Net Assets, End of Year	<u>\$ 2,162,661</u>	<u>\$ 499,933</u>	<u>\$ 2,662,594</u>	<u>\$ 2,195,941</u>	<u>\$ 498,372</u>	<u>\$ 2,694,313</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Statements of Functional Expenses
Years Ended December 31, 2021 and 2020

	2021			2020		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Personnel Expenses						
Attorneys	\$1,488,581	\$176,350	\$ 1,664,931	\$ 1,450,916	\$ 131,860	\$ 1,582,776
Paralegals	302,351	-	302,351	296,504	-	296,504
Other	338,948	159,897	498,845	269,944	161,648	431,592
Employee benefits	935,909	164,920	1,100,829	823,576	155,540	979,116
Total personnel expenses	<u>3,065,789</u>	<u>501,167</u>	<u>3,566,956</u>	<u>2,840,940</u>	<u>449,048</u>	<u>3,289,988</u>
Other Expenses						
Occupancy	98,735	1,516	100,251	85,735	1,280	87,015
Equipment rental	26,521	491	27,012	33,159	110	33,269
Office supplies and expenses	67,536	5,703	73,239	72,323	1,529	73,852
Telephone	17,588	6,287	23,875	12,781	1,017	13,798
Travel	13,813	1,622	15,435	13,366	190	13,556
Training	8,403	2,088	10,491	12,783	-	12,783
Library	37,864	750	38,614	66,553	750	67,303
Insurance	17,814	902	18,716	17,998	1,400	19,398
Dues and fees	16,546	1,435	17,981	15,078	1,088	16,166
Audit	-	27,560	27,560	-	22,350	22,350
Litigation	7,765	-	7,765	4,188	-	4,188
Contract services to program	305,093	13,643	318,736	332,042	8,397	340,439
Depreciation and amortization	69,535	-	69,535	68,950	-	68,950
Other	12,850	4,340	17,190	9,063	270	9,333
Total other expenses	<u>700,063</u>	<u>66,337</u>	<u>766,400</u>	<u>744,019</u>	<u>38,381</u>	<u>782,400</u>
Total expenses	<u>\$ 3,765,852</u>	<u>\$ 567,504</u>	<u>\$ 4,333,356</u>	<u>\$ 3,584,959</u>	<u>\$ 487,429</u>	<u>\$ 4,072,388</u>

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

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ (31,719)	\$ (160,577)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	69,535	68,950
Changes in		
Grants receivable	2,371	(143,679)
Prepaid expenses	(11,397)	1,818
Accounts payable and accrued expenses	12,915	(25,155)
Deferred revenue and client escrow funds	(282,782)	368,328
	<u>(241,077)</u>	<u>109,685</u>
Investing Activities		
Purchase of property and equipment	(235,393)	(180,231)
Net change in investments	203,265	132,388
	<u>(32,128)</u>	<u>(47,843)</u>
Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	(273,205)	61,842
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>330,293</u>	<u>268,451</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u>\$ 57,088</u>	<u>\$ 330,293</u>
Cash and cash equivalents	\$ 56,403	\$ 323,869
Client escrow funds	685	6,424
	<u>\$ 57,088</u>	<u>\$ 330,293</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, cash equivalents consisted of money market accounts.

At December 31, 2021, 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, 2021 and 2020, the Organization recorded a corresponding liability in the amount of the client escrow fund assets.

Investments

Investments consist of certificates of deposit (CDs), which are stated at cost, plus accrued interest, which approximate market value. These CDs have interest rates ranging from 0.05% to 3.40% and maturity dates of 2022 to 2024.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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, 2021 and 2020, 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, 2021 and 2020.

Deferred Revenue

Revenue from the Bank of America settlement and carryover from LSC funds awarded are deferred and recognized over the periods the Organization's staff perform legal services related to mortgage default foreclosure processes or other housing-related issues and other legal services.

Cumberland Trace Legal Services, Inc.
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Notes to Financial Statements
December 31, 2021 and 2020

At December 31, 2021 and 2020, deferred revenue consisted of the following:

	2021	2020
LSC Field Grant	\$ -	\$ 56,726
American Bankruptcy College	587,712	510,934
January rent	646	-
Kentucky Bar Association	450	-
Bank of America Settlement II	5,400	9,000
	-	294,591
	\$ 594,208	\$ 871,251

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.

Prior to April 30, 2020, the Organization recognized grant funds from LSC as support with donor restrictions until expended on LSC-eligible activities. Funds remaining unexpended at the end of an accounting period were recorded as net assets with donor restrictions. Effective April 30, 2020, LSC updated its accounting guidelines, which require the Organization to recognize LSC grant funds as the Organization expends the funds on LSC-eligible activities, and any unexpended funds remaining to carryover are recognized as deferred revenue. In accordance with LSC policy, the Organization may use unexpended funds in future periods for expenses in compliance with specific terms of the LSC grant.

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.

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.

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

Notes to Financial Statements
December 31, 2021 and 2020

Government Grants and Other Support

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

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.

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.

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 __, 2022, which is the date the financial statements were available to be issued.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

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 2021 and 2020 are as follows:

	2021	2020
LSC	\$ 1,451,222	\$ 1,377,646
United Way	231,857	214,074
Access to Justice Foundation	87,720	85,045
Kentucky filing fees	512,675	479,866
U.S. Department of Health and Human Services – Title III	293,129	-
IOLTA	-	167,837
Kentucky Justice and Public Safety Cabinet	126,751	92,626
Office on Violence Against Women	863,153	1,036,895
Other	198,349	136,218
	439,809	444,611
	\$ 4,204,665	\$ 4,034,818

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, 2021, have been recorded as grants receivable. Following are the grant commitments that extend beyond December 31, 2021:

Grant	Term	Grant Amount	Earned as of December 31, 2021	Funding Available
<i>Victims of Crime Act Grant (VOCA)</i>	10/1/2021–9/30/2022	\$ 659,982	\$ 216,261	\$ 443,721
Office on Violence Against Women	10/1/2016–9/30/2022	\$ 1,199,950	\$ 981,323	\$ 218,627
United Way	7/1/2021–6/30/2022	\$ 261,305	\$ 144,698	\$ 116,607

The Organization also receives funding under grants from the Administration on Aging Special Programs for the Aging. These grants extend through June 30, 2022, and the grants are awarded based on the quantity of hourly services provided to clients.

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**Notes to Financial Statements
December 31, 2021 and 2020**

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.

	2021	2020
LSC grant awarded	\$ 1,451,222	\$ 1,377,646
Interest income and other reimbursements	2,527	35,723
Total LSC support	\$ 1,453,749	\$ 1,413,369
10% of total LSC support	\$ 145,375	\$ 141,337
Carryover funds (cumulative net assets utilized)	\$ 587,712	\$ 510,934

Note 5: Property and Equipment

Property and equipment at December 31, 2021 and 2020, consist of:

	LSC	Non-LSC	2021
Buildings and improvements	\$ 549,239	\$ 1,434,659	\$ 1,983,898
Furniture and equipment	57,032	112,880	169,912
Construction in progress	16,602	207,991	224,593
	622,873	1,755,530	2,378,403
Less accumulated depreciation	162,101	528,898	690,999
	\$ 460,772	\$ 1,226,632	\$ 1,687,404
	LSC	Non-LSC	2020
Buildings and improvements	\$ 538,439	\$ 1,434,659	\$ 1,973,098
Furniture and equipment	57,032	112,880	169,912
	595,471	1,547,539	2,143,010
Less accumulated depreciation	136,260	485,204	621,464
	\$ 459,211	\$ 1,062,335	\$ 1,521,546

**Cumberland Trace Legal Services, Inc.
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Notes to Financial Statements

December 31, 2021 and 2020

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, Kentucky 40601, or by calling 800.928.4646.

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 2021, the Organization contributed 24.06% of each participant's salary from January through June and contributed 26.95% of each participant's salary from July through December. For 2020, the Organization contributed 24.06% of each participant's salary. Contributions to the Plan for 2021 and 2020, were \$613,851 and \$521,748, respectively, which equaled the required contributions for each year.

Note 7: Operating Leases

Noncancelable operating leases for office space expired in 2021.

The Organization incurred certain short-term leasing arrangements for office space and small equipment. Total rent expense incurred for 2021 and 2020, was \$59,112 and \$66,319, 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 \$202,784 and \$189,947 for 2021 and 2020, respectively.

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

Notes to Financial Statements

December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 56,403	\$ 323,869
Investments – certificates of deposit	<u>410,241</u>	<u>980,845</u>
	<u>\$ 466,644</u>	<u>\$ 1,304,714</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 35% and 34% of the Organization’s grant revenues for the years 2021 and 2020, respectively, were funded through grants from LSC.

Note 11: 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

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Notes to Financial Statements
December 31, 2021 and 2020

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, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. 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, 2021 and 2020

	2021								2020	
	Non-LSC Grants	Basic Field Grants	LSC COVID-19 Response Grant	LSC Carryover Waiver	LSC Rural Summer Legal Corps Fellowship	Subtotal	LSC Property	Other Property	Total	Total
Revenues, Gains and Other Support										
Grants and contracts	\$ 2,753,443	\$ 1,019,899	\$ 56,726	\$ 369,597	\$ 5,000	\$ 4,204,665	\$ -	\$ -	\$ 4,204,665	\$4,034,818
Rental income	-	5,400	-	-	-	5,400	-	-	5,400	5,400
Court-appointed attorney fees	1,800	-	-	-	-	1,800	-	-	1,800	5,250
Interest income	-	-	-	-	-	-	-	-	-	30,114
Gain on property	-	-	-	-	-	-	-	-	-	-
Other income	87,505	-	2,267	-	-	89,772	-	-	89,772	91,941
Total revenues, gains and other support	<u>2,842,748</u>	<u>1,025,299</u>	<u>58,993</u>	<u>369,597</u>	<u>5,000</u>	<u>4,301,637</u>	<u>-</u>	<u>-</u>	<u>4,301,637</u>	<u>4,167,523</u>
Allocated Expenses										
Personnel expenses										
Attorneys	1,082,240	307,599	41,143	233,949	-	1,664,931	-	-	1,664,931	1,582,776
Paralegals	239,596	25,092	2,844	34,819	-	302,351	-	-	302,351	296,504
Other	290,960	139,507	29	68,349	-	498,845	-	-	498,845	431,592
Employee benefits	719,823	334,239	14,287	32,480	-	1,100,829	-	-	1,100,829	979,116
Total personnel expenses	<u>2,332,619</u>	<u>806,437</u>	<u>58,303</u>	<u>369,597</u>	<u>-</u>	<u>3,566,956</u>	<u>-</u>	<u>-</u>	<u>3,566,956</u>	<u>3,289,988</u>
Other expenses										
Occupancy	77,099	22,865	287	-	-	100,251	-	-	100,251	87,015
Equipment rental	22,878	4,134	-	-	-	27,012	-	-	27,012	33,269
Office supplies and expenses	51,424	21,440	375	-	-	73,239	-	-	73,239	73,852
Telephone	18,778	5,097	-	-	-	23,875	-	-	23,875	13,798
Travel	12,047	3,360	28	-	-	15,435	-	-	15,435	13,556
Training	9,220	1,271	-	-	-	10,491	-	-	10,491	12,783
Library	27,798	10,816	-	-	-	38,614	-	-	38,614	67,303
Insurance	14,817	3,899	-	-	-	18,716	-	-	18,716	19,398
Dues and fees	17,981	-	-	-	-	17,981	-	-	17,981	16,166
Audit	18,740	8,820	-	-	-	27,560	-	-	27,560	22,350
Litigation	7,358	407	-	-	-	7,765	-	-	7,765	4,188
Contract services to program	210,284	103,452	-	-	5,000	318,736	-	-	318,736	340,439
Depreciation	-	-	-	-	-	-	25,880	43,655	69,535	68,950
Other	11,330	5,860	-	-	-	17,190	-	-	17,190	9,333
Total other expenses	<u>499,754</u>	<u>191,421</u>	<u>690</u>	<u>-</u>	<u>5,000</u>	<u>696,865</u>	<u>25,880</u>	<u>43,655</u>	<u>766,400</u>	<u>782,400</u>
Total allocated expenses	<u>2,832,373</u>	<u>997,858</u>	<u>58,993</u>	<u>369,597</u>	<u>5,000</u>	<u>4,263,821</u>	<u>25,880</u>	<u>43,655</u>	<u>4,333,356</u>	<u>4,072,388</u>
Revenues, Gains and Other Support over (Under) Allocated Expenses	10,375	27,441	-	-	-	37,816	(25,880)	(43,655)	(31,719)	95,135
Other Changes in Net Assets										
Change in LSC guidance	-	-	-	-	-	-	-	-	-	(255,712)
Acquisition of property	(207,952)	(27,441)	-	-	-	(235,393)	27,441	207,952	-	-
Change in Net Assets	(197,577)	-	-	-	-	(197,577)	1,561	164,297	(31,719)	(160,577)
Net Assets, Beginning of Year	1,172,767	-	-	-	-	1,172,767	459,211	1,062,335	2,694,313	2,854,890
Net Assets, End of Year	<u>\$ 975,190</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 975,190</u>	<u>\$ 460,772</u>	<u>\$ 1,226,632</u>	<u>\$ 2,662,594</u>	<u>\$ 2,694,313</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, 2021 and 2020**

	2021				2020	
	Title III	IOLTA Grant	State Grants	Other Non-LSC Grants	Total	Total
Revenues, Gains and Other Support						
Grants and contracts	\$ 293,129	\$ 126,751	\$ 87,720	\$ 2,245,843	\$ 2,753,443	\$ 2,657,172
Court appointed attorney fees	-	-	1,800	-	1,800	5,250
Other income	645	-	-	86,860	87,505	91,732
Total revenues, gains and other support	<u>293,774</u>	<u>126,751</u>	<u>89,520</u>	<u>2,332,703</u>	<u>2,842,748</u>	<u>2,754,154</u>
Allocated Expenses						
Personnel expenses						
Attorneys	57,812	78,398	-	946,030	1,082,240	1,162,303
Paralegals	38,161	5	12,010	189,420	239,596	251,052
Other	106,575	8,263	5,600	170,522	290,960	227,279
Employee benefits	61,557	22,549	18,723	616,994	719,823	589,171
Total personnel expenses	<u>264,105</u>	<u>109,215</u>	<u>36,333</u>	<u>1,922,966</u>	<u>2,332,619</u>	<u>2,229,805</u>
Other expenses						
Occupancy	-	4,491	6,545	66,063	77,099	56,691
Equipment rental	3,405	1,387	2,105	15,981	22,878	24,224
Office supplies and expenses	4,095	2,740	4,490	40,099	51,424	35,669
Telephone	723	1,255	1,303	15,497	18,778	10,083
Travel	427	215	505	10,900	12,047	12,357
Training	-	144	259	8,817	9,220	9,782
Library	-	2,063	3,112	22,623	27,798	54,859
Insurance	367	652	789	13,009	14,817	10,313
Dues and fees	-	228	13,795	3,958	17,981	16,166
Audit	719	639	1,508	15,874	18,740	11,405
Litigation	-	42	50	7,266	7,358	3,850
Contract services to program	2,850	3,001	16,364	188,069	210,284	233,009
Other	-	679	2,362	8,289	11,330	7,183
Total other expenses	<u>12,586</u>	<u>17,536</u>	<u>53,187</u>	<u>416,445</u>	<u>499,754</u>	<u>485,591</u>
Total allocated expenses	<u>276,691</u>	<u>126,751</u>	<u>89,520</u>	<u>2,339,411</u>	<u>2,832,373</u>	<u>2,715,396</u>
Revenues, Gains and Other Support over (Under) Allocated Expenses	17,083	-	-	(6,708)	10,375	38,758
Other Changes in Net Assets						
Acquisition of property	-	-	-	(207,952)	(207,952)	(54,904)
Change in Net Assets	17,083	-	-	(214,660)	(197,577)	(16,146)
Net Assets, Beginning of Year	-	39,161	-	1,133,606	1,172,767	1,188,913
Net Assets, End of Year	<u>\$ 17,083</u>	<u>\$ 39,161</u>	<u>\$ -</u>	<u>\$ 918,946</u>	<u>\$ 975,190</u>	<u>\$ 1,172,767</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Expenses for Private Attorney Involvement
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Personnel Expenses		
Attorneys	\$ 60,468	\$ 57,069
Paralegals	403	547
Other	17,690	21,130
Employee benefits	<u>20,437</u>	<u>17,980</u>
Total personnel expenses	<u>98,998</u>	<u>96,726</u>
Other Expenses		
Occupancy	5,970	5,428
Equipment rental	1,372	2,076
Office supplies and expenses	3,221	3,691
Telephone	1,213	861
Travel	784	846
Training	533	798
Library	1,962	4,200
Insurance	465	1,210
Dues and fees	783	1,009
Audit	1,400	1,395
Contract services to program	<u>86,083</u>	<u>71,607</u>
Total other expenses	<u>103,786</u>	<u>93,121</u>
Total expenses	<u>\$ 202,784</u>	<u>\$ 189,847</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Office of Inspector General/ Legal Services Program	09.618036		\$ -	\$1,019,899
Rural Intern Summer Legal Corps Student Fellowship			-	5,000
LCS Carryover Waiver			-	369,597
LCS TIG Grant			-	-
LSC Telework Capacity Building Grant CVT20083			-	-
LSC COVID-19 Response Grant CV20087			-	58,993
			<u>-</u>	<u>1,453,489</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	PON 725 1900004491	-	8,830
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	PON2 725 2000000214, PON2 725 1900000876	-	123,097
Purchase Area Development District	93.044	PON2 725 1700002717	-	42,933
Pennyrile Area Development District	93.044	M-05154452(3)	-	26,050
Green River Area Development District	93.044	PON2 725 2000002717	-	33,800
			<u>-</u>	<u>225,880</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	PON 725 1900004491	-	7,621
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	PON2 725 1900001119	-	31,860
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	PON2 725 2000000094	-	2,500
U.S. Department of Justice, Office on Violence Against Women/Legal Assistance for Victims	16.524		-	198,349
U.S. Department of Housing and Urban Development/West Tennessee Legal Services/ Housing Counseling Assistance Program	14.169	HC-1800-11022/HC-1900-11022	-	18,696
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-2020-CUMBERLAND 00036	-	863,153
			<u>\$ -</u>	<u>\$ 2,810,378</u>

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

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, 2021. 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. The Legal Services Program grant is considered to be high risk.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 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.

There are no federal loan programs administered directly by the Organization.

3. Indirect Cost Rate

The Organization has elected to use 10% *de minimis* indirect cost rate allowed under Uniform Guidance.

**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 Organization's statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Board of Directors
Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Page 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
April 8, 2022

Report on Compliance for the 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

Opinion on 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 identified as subject to audit 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, 2021. 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.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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*. Our responsibilities under those standards, the Uniform Guidance, and the *Legal Services Corporation Audit Guide* are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and *Legal Services Corporation Audit Guide*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
April 8, 2022

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021

Section I – Summary of Auditor’s Results

Financial Statements

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

Unmodified Qualified Adverse Disclaimed

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to the financial statements noted?

Yes No

Federal Awards

3. Internal control over major federal awards programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

4. Type of auditor’s report issued on compliance for major federal award program(s):

Unmodified Qualified Adverse Disclaimed

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

Yes No

6. Identification of major federal programs:

Assistance Listing Number

09.618036

Name of Federal Program or Cluster

Legal Services Corporation

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

8. Auditee 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, 2021

Section II – Financial Statement Findings

Reference Number	Finding
	No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No matters are reportable.

Cumberland Trace Legal Services, Inc.
d/b/a Kentucky Legal Aid
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

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, 2021, 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 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 contract 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 contract 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.

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:

- No matters are reportable

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 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 Adjustments

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.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- No matters are reportable

Proposed Audit Adjustments Not Recorded

- No matters are reportable

Auditor's Judgments About the Quality of the Organization'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)

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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

Louisville, Kentucky

April 8, 2022

Attachment

Representation of:
Kentucky Legal Aid
1700 Destiny Way
Bowling Green, KY 42104

Provided to:
BKD, LLP
Certified Public Accountants
600 N. Hurstbourne Parkway, Suite 350
Louisville, KY 40222

The undersigned (“We”) are providing this letter in connection with BKD’s audits of our financial statements as of and for the years ended December 31, 2021 and 2020, 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, 2021.

Our representations are current and effective as of the date of BKD’s report: April 8, 2022.

Our engagement with BKD is based on our contract for services dated: December 3, 2021.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD’s report 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.

Confirmation of Matters Specific to the Subject Matter of BKD’s Report

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 contract, 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:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.

3. 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.
4. We have everything we need to keep our books and records.
5. 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 entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of board of directors' meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities, or net assets.
8. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.
10. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
11. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware. The entity has not entered into any new agreements with a related party or modified terms related to an existing related-party transaction during the year under audit, or as of the date of this letter. Further, we do not have any existing or ongoing agreements with related parties that are still in effect as of the date of this letter.

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 entity may deal if the entity 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 entity.

12. 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 entity is contingently liable.
13. 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.
14. We have no reason to believe the entity 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.
15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the 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.
16. Adequate provisions and allowances have been accrued for any material losses from:
 - a. Uncollectible receivables, including pledges.
 - b. Purchase commitments in excess of normal requirements or above prevailing market prices.
17. Except as disclosed in the financial statements, the entity 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.
18. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date that 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 that 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.
19. 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.
20. 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.
21. With respect to any nonattest services you have provided us during the year, including preparation of the notes to 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 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.
22. We have identified to you any activities conducted having both fund raising 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.
23. We are an entity exempt from income tax under Section 501(c) of the Internal Revenue 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 acknowledge the entity 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 entity does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.

25. As an entity subject to *Government Auditing Standards*:

- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
- b. 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.
- c. 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.
- d. 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.
- e. We have a process to track the status of audit findings and recommendations.
- f. 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.
- g. 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*.

26. 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 entity has complied with all applicable compliance requirements.
 - e. We are responsible for the design, implementation, and maintenance of internal controls over compliance that 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.
 - 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. The reporting package does not contain any protected personally identifiable information.
27. 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.
 - 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.
28. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity'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.
29. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business/contributions, constraints on liquidity, difficulty obtaining financing, etc. 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 entity'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 entity's financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts, evaluating capital needs and liquidity plans, etc.

30. With regard to compliance with Legal Services Corporation (LSC) requirements, as specified in CFR Title 45 (code sections indicated for each item below):
- a. Section 1604 – Full-time attorneys did not participate in outside compensated practice during 2021.
 - 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, 2021.
 - c. Section 1609 – During the year ended December 31, 2021, no fee-generating cases were accepted by Cumberland Trace Legal Services, Inc. d/b/a Kentucky Legal Aid (Organization).
 - d. Section 1610 – Neither the Organization, its staff or its board of directors have entered into agreements or contracts with organizations or individuals engaged in restricted activities as prohibited by the *Legal Services Corporation Act* (LSC Act).

- e. Section 1610 – No payments or transfers were made during the year ended December 31, 2021, 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, 2021.
- g. Section 1612 – The Organization did not employ any registered lobbyists during the year ended December 31, 2021.
- h. Section 1617 – The Organization did not initiate or participate in any class action cases during the year ended December 31, 2021.
- i. Section 1620 – The Organization did not undertake any emergency cases or matters during the year ended December 31, 2021.
- j. Section 1627 – The Organization did not subgrant any LSC funds to another organization during the year ended December 31, 2021.
- k. Section 1627 – During the year ended December 31, 2021, 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, which exceeded the 10% threshold requiring LSC approval, was properly approved by LSC and the carryover funds were expended by December 31, 2021.
- m. Section 1630 – During the year ended December 31, 2021, no LSC funds were used for pre-award costs incurred after the cessation of funding.
- n. Section 1632 – During the year ended December 31, 2021, the Organization did not have any cases related to redistricting.
- o. Section 1633 – During the year ended December 31, 2021, the Organization did not have any cases involving drug-related eviction proceedings.
- p. Section 1637 – During the year ended December 31, 2021, the Organization did not have any cases involving incarcerated clients.

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