

**LEGAL AID SOCIETY OF
THE DISTRICT OF COLUMBIA
DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

To the Executive Committee
Legal Aid Society of the District of Columbia
Washington, D.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Legal Aid Society of the District of Columbia (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Legal Aid Society of the District of Columbia 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 opinions.

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 Legal Aid Society of the District of Columbia's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. As required by the terms of the District of Columbia grants, an audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, was performed. The accompanying schedules of activities (without donated services) for the years ended December 31, 2021 and 2020 and the schedule of expenditures of District of Columbia and 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 audits 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the valuation of donated services, the 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 June 30, 2022 on our consideration of Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia's internal control over financial reporting and compliance.

Sapiano and Rhoades, LLP

June 30, 2022

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
ASSETS	2021	2020
CURRENT ASSETS:		
Cash and cash equivalents	\$ 913,861	\$ 1,063,510
Investments	6,490,386	6,773,723
Grants and contributions receivable	3,182,402	2,803,969
Interest receivable and prepaid expenses	109,257	86,824
TOTAL CURRENT ASSETS	\$ 10,695,906	\$ 10,728,026
PROPERTY AND EQUIPMENT	390,696	409,013
OTHER ASSETS:		
Deposits	42,348	42,348
TOTAL ASSETS	\$ 11,128,950	\$ 11,179,387
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 387,022	\$ 251,741
Deferred revenue	-	20,500
Loan payable - current portion	-	834,192
Deferred lease obligation - current portion	124,925	213,685
TOTAL CURRENT LIABILITIES	\$ 511,947	\$ 1,320,118
NON-CURRENT LIABILITIES:		
Loan payable non-current	\$ -	\$ 325,508
Deferred lease obligation - non-current	976,029	965,839
TOTAL LIABILITIES	\$ 1,487,976	\$ 2,611,465
COMMITMENTS		
NET ASSETS:		
Without donor restrictions	\$ 5,481,153	\$ 4,810,736
With donor restrictions	4,159,821	3,757,186
TOTAL NET ASSETS	\$ 9,640,974	\$ 8,567,922
TOTAL LIABILITIES AND NET ASSETS	\$ 11,128,950	\$ 11,179,387

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED DECEMBER 31,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND GAINS:						
Donated services	\$ 20,078,930	\$ -	\$ 20,078,930	\$ 20,919,025	\$ -	\$ 20,919,025
Grants and contributions	4,231,319	3,535,433	7,766,752	4,146,251	3,778,822	7,925,073
Special events	1,378,107	-	1,378,107	1,255,656	-	1,255,656
PPP loan forgiveness	1,159,700	-	1,159,700	-	-	-
Investment income, net	400,921	108,875	509,796	348,685	79,065	427,750
Legal fees	141,839	-	141,839	49,302	-	49,302
Miscellaneous income	-	-	-	16,836	-	16,836
Net assets released from restrictions	3,241,673	(3,241,673)	-	3,121,086	(3,121,086)	-
TOTAL REVENUE, SUPPORT AND GAINS	<u>\$ 30,632,489</u>	<u>\$ 402,635</u>	<u>\$ 31,035,124</u>	<u>\$ 29,856,841</u>	<u>\$ 736,801</u>	<u>\$ 30,593,642</u>
EXPENSES:						
Program service	\$ 27,986,503	\$ -	\$ 27,986,503	\$ 27,866,477	\$ -	\$ 27,866,477
Management and general	1,147,479	-	1,147,479	768,793	-	768,793
Fundraising	828,090	-	828,090	671,882	-	671,882
TOTAL EXPENSES	<u>\$ 29,962,072</u>	<u>\$ -</u>	<u>\$ 29,962,072</u>	<u>\$ 29,307,152</u>	<u>\$ -</u>	<u>\$ 29,307,152</u>
CHANGES IN NET ASSETS	\$ 670,417	\$ 402,635	\$ 1,073,052	\$ 549,689	\$ 736,801	\$ 1,286,490
NET ASSETS, BEGINNING OF YEAR	<u>4,810,736</u>	<u>3,757,186</u>	<u>8,567,922</u>	<u>4,261,047</u>	<u>3,020,385</u>	<u>7,281,432</u>
NET ASSETS, END OF YEAR	<u>\$ 5,481,153</u>	<u>\$ 4,159,821</u>	<u>\$ 9,640,974</u>	<u>\$ 4,810,736</u>	<u>\$ 3,757,186</u>	<u>\$ 8,567,922</u>

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31,

	2021				2020			
	Program Service	Supporting Services			Program Service	Supporting Services		
		Management and General	Fundraising	Total		Management and General	Fundraising	Total
Donated services	\$ 20,078,930	\$ -	\$ -	\$ 20,078,930	\$ 20,919,025	\$ -	\$ -	\$ 20,919,025
Salaries	5,772,646	677,034	479,847	6,929,527	5,029,132	515,721	418,090	5,962,943
Employee benefits	732,890	85,445	60,921	879,256	632,150	64,825	52,553	749,528
Occupancy	580,019	67,301	47,986	695,306	628,071	64,002	51,886	743,959
Payroll taxes	442,707	51,613	36,800	531,120	332,754	34,123	27,663	394,540
Professional services	28,186	169,759	-	197,945	-	50,152	-	50,152
Technology and internet	77,772	49,773	12,466	140,011	78,076	8,005	24,138	110,219
Depreciation and amortization	96,158	11,211	7,993	115,362	75,786	7,773	6,300	89,859
Office supplies and expenses	64,017	7,464	5,462	76,943	67,077	5,662	4,712	77,451
Bank and credit card fees	-	3,371	72,338	75,709	-	3,976	67,747	71,723
Special events	-	-	57,884	57,884	-	-	14,959	14,959
Bad debt	-	-	41,646	41,646	-	-	-	-
Telephone	31,007	3,377	2,408	36,792	35,881	2,313	1,875	40,069
Insurance	29,844	6,378	-	36,222	28,586	5,982	-	34,568
Dues and subscriptions	30,456	2,199	951	33,606	22,525	1,483	1,580	25,588
Miscellaneous expenses	8,309	4,156	-	12,465	8,682	368	-	9,050
Training	10,812	-	450	11,262	4,733	-	109	4,842
Postage and shipping	192	7,114	-	7,306	133	4,025	-	4,158
Printing and publications	2,558	229	938	3,725	3,866	333	270	4,469
Taxes - other	-	1,055	-	1,055	-	50	-	50
TOTAL EXPENSES	\$ 27,986,503	\$ 1,147,479	\$ 828,090	\$ 29,962,072	\$ 27,866,477	\$ 768,793	\$ 671,882	\$ 29,307,152

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,073,052	\$ 1,286,490
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Forgiveness of paycheck protection program loan	(1,159,700)	-
Depreciation and amortization	115,362	89,859
Net realized and unrealized gains on investments	(394,316)	(349,525)
Donated securities recorded as revenue	(108,339)	(150,905)
Bad debts	41,646	-
Change in operating assets and liabilities:		
Increase in grants and contributions receivable	(420,079)	(62,374)
Decrease (increase) in interest receivable and prepaid expenses	(22,433)	61,404
Increase in accounts payable and accrued expenses	135,282	64,450
Decrease in deferred revenue	(20,500)	(60,500)
Increase (decrease) in deferred lease obligation	(78,570)	125,606
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	\$ (838,595)	\$ 1,004,505
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	\$ 1,243,744	\$ 412,804
Purchases of investments	(457,753)	(3,180,717)
Payments for purchases of property and equipment	(97,045)	(91,447)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ 688,946	\$ (2,859,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from paycheck protection program loan	\$ -	\$ 1,159,700
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (149,649)	\$ (695,155)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,063,510	1,758,665
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 913,861	\$ 1,063,510

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

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1. **Organization and Summary of Significant Accounting Policies**

Organization - The Legal Aid Society of the District of Columbia (the “Organization”) was founded in 1932 as a non-profit public interest law firm. The Organization provides representation and other assistance to low-income individuals who are either District of Columbia (the “District”) residents or have a civil legal problem in the District’s courts or before a District administrative tribunal. The Organization’s staff and volunteers assist clients with civil legal problems on a range of matters including domestic violence, custody, child support, eviction, immigration, public housing, preservation of affordable housing, health care, public benefits and consumer law.

Program Service - The Organization works to ensure that families, individuals and communities living in poverty have equal and meaningful access to justice by providing advice, brief assistance, representation and referrals. In addition to direct client services, the Organization advocates for systemic change on matters that grow directly from individual cases. The core priorities of the Organization include keeping people housed, securing access to health care and public benefits, protecting limited assets and income, protecting immigrants’ rights, securing safety from domestic violence and finding family stability. The Organization also has a nationally-recognized appellate practice, the Barbara McDowell Appellate Advocacy Project.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation - The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions:* Net assets without donor restrictions represent funds which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its program or supporting services.
- *With donor restrictions:* Net assets with donor restrictions are comprised of funds which are restricted by donors for a specific purpose, for a specific time period, or in perpetuity.

Income Tax Status - The Organization is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (IRC). Income from certain activities not directly related to the Organization’s tax-exempt purpose are subject to taxation as unrelated business income.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 - For purposes of the statements of cash flows, the Organization considers highly liquid debt instruments purchased with original maturities of less than three months to be cash equivalents. Money market funds held with investment brokers are considered cash equivalents.

Investments - Investments are measured at fair value at the statement of financial position date. Investments include exchange-traded funds, common stocks and fixed income securities held with investment brokers. Money market funds held with investment brokers are reported as cash equivalents. Investment income is presented net of investment fees and is comprised of interest, dividends, fees and realized and unrealized gains and losses on investments and is reported in the statements of activities.

Grants and Contributions Receivable - Grants and contributions receivable represent amounts pledged but not yet collected at year-end. These receivables, which are generally uncollateralized, are stated at the amount management expects to collect from balances outstanding at year-end. Based on its assessment of the payment history and current relationships with contributors and grantors having outstanding balances management has concluded that realization losses, if any, on balances outstanding at year-end would be immaterial. Therefore, there was no allowance for doubtful accounts as of December 31, 2021 and 2020. Management expects the amounts to be received in full within the coming year.

Property and Equipment - Property and equipment are stated at cost, if purchased, or fair value on the date of donation, if contributed. Leasehold improvements are amortized on the straight-line basis over the lease term. Depreciation is computed using the straight-line method based on useful lives of three to five years. All purchases of equipment over \$1,000 and with expected lives of greater than one year are capitalized. Maintenance and repairs are expensed in the year incurred.

Revenue Recognition - In accordance with Financial Accounting Standards Board's Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, the Organization recognizes revenues from contracts with customers when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred, in the amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods and services. Revenue from contracts with customers is reported as event ticket revenue in the statements of activities. The performance obligations are satisfied at a point in time when the event occurs.

Amounts received in advance for future events is recorded as deferred revenue in the statements of financial position.

Revenue from grants and contributions are recognized at the earlier of when the donor makes a promise to give to the Organization that is, in substance, unconditional or when they are received. Revenue from grants that are considered conditional contributions are recorded in the statements of activities as grants and contributions when the conditions have been met. Contributions are considered to be without donor restrictions unless specifically restricted by the donor for time or purpose.

The Organization records contributions in the donor restricted net asset class if they are received with donor stipulations as to their use and/or time. When a donor restriction expires, net assets with donor restrictions are released and reclassified to net assets without donor restrictions in the statements of activities.

Revenue from reimbursable grants that are considered to be conditional are recorded in the statements of activities under reimbursable grants and are recognized as qualifying expenses are incurred under the terms of the grant or agreements. Donor restricted conditional grants which are recognized and used in the same reporting period, are reported as without donor restrictions.

Donated Goods and Services - Donated non-cash assets are recorded at their estimated fair market values in the period received. Donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation, are recorded as revenue and expense at their estimated fair values in the period received. Such amounts are reflected as a part of donated services revenue and program activities expenses in the accompanying statements of activities. In-kind contributions, such as donated property and equipment, are included in the statements of activities at their estimated fair value on the date of donation and either capitalized on the statements of financial position, as it relates to equipment, or shown in the representative functional expense account the contribution relates to.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 1. **Organization and Summary of Significant Accounting Policies - (Continued)**

Functional Expense Allocation - The costs of providing various program and supporting services have been summarized on a functional basis in the statements of activities and presented in the statements of functional expenses by their natural categories. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas. Salaries, benefits and payroll taxes are reported across program and supporting services based on a time and effort basis. General operating costs not attributable to a specific functional activity are reported as management and general expenses. Other costs that benefit multiple functional areas have been allocated across program and other supporting services based on a time and effort basis that is consistently applied. The expenses that are allocated include occupancy, depreciation and amortization, technology and internet, postage and shipping, telephone and office supplies and expenses.

Note 2. **Liquidity and Availability** -The following represents the Organization’s financial assets at December 31:

	2021	2020
Financial assets at year-end:		
Cash and cash equivalents	\$ 913,861	\$ 1,063,510
Investments	6,490,386	6,773,723
Grants and contributions receivable	3,182,402	2,803,969
Interest receivable	4,857	4,857
Total financial assets	\$ 10,591,506	\$ 10,646,059
Less, amounts with restrictions:		
Restricted by donors for purposes	3,104,927	2,840,852
Investments restricted by donors for endowments in perpetuity	1,054,894	916,334
Financial assets available to meet general expenditures over the next twelve months	\$ 6,431,685	\$ 6,888,873

The Organization receives a majority of its funding from grants and private contributions. 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 become due. In order to ensure that the Organization meets the obligations of all grant funding as well as to meet the expectations of its funders and contributors, cash and cash equivalent funds are allocated to four specific fund categories that are monitored by management:

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 2. **Liquidity and Availability** - (Continued)

- Operating Fund, which is intended to cover the Organization’s anticipated expenditures on a monthly basis;
- Pre-Paid Program Fund, which is used to manage any restricted grant or other donor-designated funding to be spent on a specific program in the subsequent budget year than when received;
- Operating Reserve Fund, which is intended to provide a reserve in the event of an unanticipated decline in revenues or unanticipated increase in expenses; it is set by formula as 25% of all budgeted unrestricted expenses and 12.5% of all budgeted restricted expenses for the coming budget year; and
- Uncommitted Reserve Fund, which is the remaining balance of funds not allocated into other funds and that can be designated for special projects or needs as warranted.

In addition, the Organization invests cash in excess of its immediate needs in short-term investments.

Legal Aid also has an investment policy to provide for the regular and continuous management of funds and invests funds not immediately needed to meet expenses in two primary types of investment funds: short term cash and highly liquid short-term instruments for current operating expenditures (Operating Fund) and longer-term instruments (the Pre-Paid Program Fund, Operating Reserve Fund, and Uncommitted Reserve Fund).

Note 3. **Investments** - The aggregate fair values of investments as of December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Exchange-Traded Funds	\$ 5,182,366	\$ 5,339,465
Fixed income securities	919,548	963,007
Common stocks	388,472	471,251
Totals	\$ 6,490,386	\$ 6,773,723

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 3. **Investments** - (Continued)

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

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 121,553	\$ 82,098
Investment fees	(6,073)	(3,873)
Realized gains (losses) on investments	(63,461)	2,597
Unrealized gains on investments	<u>457,777</u>	<u>346,928</u>
	<u>\$ 509,796</u>	<u>\$ 427,750</u>

Note 4. **Fair Value Measurements** - Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 4. **Fair Value Measurements** - (Continued)

Following is a description of the valuation methodologies used for investments measured at fair value:

Money market funds and exchange-traded funds (no readily available market price) - These funds are valued by the institutional fund management at the stated price of the fund which generally approximates the original cost and the fair value of the underlying assets.

Common stock, fixed-income securities and certain exchange-traded funds - Securities which are traded on a national securities exchange are valued at the closing price reported on the last business day of the year.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 107,465	\$ -	\$ 107,465
Fixed-income securities	919,548	-	-	919,548
Exchange-traded funds	5,182,366	-	-	5,182,366
Common stock	388,472	-	-	388,472
Totals	<u>\$ 6,490,386</u>	<u>\$ 107,465</u>	<u>\$ -</u>	<u>\$ 6,597,851</u>
Less: Amount included in cash				<u>(107,465)</u>
Total investments				<u>\$ 6,490,386</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 215,917	\$ -	\$ 215,917
Fixed-income securities	963,007	-	-	963,007
Exchange-traded funds	5,339,465	-	-	5,339,465
Common stock	471,251	-	-	471,251
Totals	<u>\$ 6,773,723</u>	<u>\$ 215,917</u>	<u>\$ -</u>	<u>\$ 6,989,640</u>
Less: Amount included in cash				<u>(215,917)</u>
Total investments				<u>\$ 6,773,723</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 5. **Property and Equipment** - Property and equipment consists of the following as of December 31:

	2021	2020
Leasehold improvements	\$ 443,857	\$ 443,857
Computer equipment	408,722	313,018
Office furniture and equipment	68,163	66,822
Website	11,289	11,289
Total property and equipment	\$ 932,031	\$ 834,986
Less, accumulated depreciation and amortization	541,335	425,973
Net property and equipment	\$ 390,696	\$ 409,013

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was \$115,362 and \$89,859, respectively.

Note 6. **Paycheck Protection Program Loan** - On May 8, 2020, the Organization (the “Borrower”), received a loan (the “Loan”) from Truist Bank in the amount of \$1,159,700 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for an amount up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP, the loan may be forgiven if the proceeds are used for qualifying expenses as described in the CARES Act, while maintaining payroll levels. Qualifying expenses include payroll, benefits, rent and utilities. The Organization received forgiveness for the loan during the year ended December 31, 2021.

Note 7. **Commitments** - The Organization amended their office lease to acquire additional office space under a lease term that expires in September 2027. The lease agreement includes escalation clauses relating to increases in the consumer price index, real estate taxes and operating costs, as well as clauses calling for the abatement of a portion of the rent commitment and an allowance for leasehold improvements. This arrangement gives rise to a deferred lease obligation which is being amortized over the term of the lease. The deferred lease obligation as of December 31, 2021 and 2020 was \$1,100,954 and \$1,179,524, respectively. The Organization has also entered into a five-year non-cancelable operating lease for additional office space in Southeast D.C. that expires on November 30, 2025. Total office rent expense for the years ended December 31, 2021 and 2020 was \$695,306 and \$743,959, respectively.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 7. **Commitments** - (Continued)

During 2017, the Organization entered into a non-cancelable operating lease for copier that expires in September 2022. Monthly rental payments on the copier is \$651. During 2019, the Organization entered into a three-year non-cancelable operating lease for the use of Sky Data Vault software that expires in May 2023. Monthly rental payments on the software is \$800. During 2021, the Organization entered into a three-year non-cancelable service agreement for Sky Data Vault backup that expires in June 2024. Monthly payments for this service is \$500. Total operating lease expense for the years ended December 31, 2021 and 2020 was \$43,411 and \$48,890 respectively.

Future minimum lease payments are as follows:

Years Ending December 31,	Office Leases	Equipment	Total
2022	\$ 844,028	\$ 20,805	\$ 864,833
2023	873,452	10,000	883,452
2024	903,886	3,000	906,886
2025	933,065	-	933,065
2026	939,954	-	939,954
Thereafter	749,307	-	749,307
Total	<u>\$ 5,243,692</u>	<u>\$ 33,805</u>	<u>\$ 5,277,497</u>

The Organization has entered into an agreement with a hotel relating to the annual Legal Aid Society Servant of Justice Dinner. This agreement obligates the Organization to spend certain minimums on food and beverages.

Note 8. **Retirement Plan** - The Organization maintains a contributory 401(k) retirement plan (the “Plan”) for employees meeting certain eligibility requirements, as outlined in the Plan. Participants are eligible to make voluntary contributions to the Plan upon their initial day of employment. The Organization provides for a discretionary match based on each participant’s compensation. The Organization’s contribution to the Plan for the years ended December 31, 2021 and 2020 was \$165,230 and \$143,855, respectively.

Note 9. **Donated Goods and Services** - For the years ended December 31, 2021 and 2020, the Organization received \$20,078,930 and \$20,919,025, respectively, of donated services that consisted of legal and consulting services to support its program services. Donated services are recorded at the amount reported by the contributing organization and are typically based on that organization’s standard hourly billing rates.

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 10. **Net Assets with Donor Restrictions** - Net assets with donor restrictions were for the following purposes as of December 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose:		
Civil Legal Counsel Projects	\$ 1,177,000	\$ 1,100,000
Neighborhood Access Project	485,000	385,000
Amazon Foreclosure Prevention	250,000	500,000
Family Law Assistance Network	200,000	-
Housing Justice Advocacy	176,500	165,000
Immigration Rights Legal Services Project	173,392	100,000
Child Support Court-Based Legal Services	172,000	155,000
Domestic Violence Victims Project	140,000	130,000
Consumer Law	75,000	70,000
Foreclosure Prevention Project	75,000	70,000
Sidley Austin Fellow	62,114	51,262
Yale Fellowship	35,083	28,034
Skadden Fellow	30,682	36,318
McDowell Endowment	29,887	27,263
Appellate Advocacy Project	20,000	20,000
Klepper Endowment	<u>3,269</u>	<u>2,975</u>
Total	<u>\$ 3,104,927</u>	<u>\$ 2,840,852</u>
In perpetuity for endowments:		
McDowell Endowment	\$ 617,130	\$ 565,737
Making Justice Real	369,584	288,019
Klepper Endowment	62,118	56,516
Da Costa V. Mason	<u>6,062</u>	<u>6,062</u>
Total	<u>\$ 1,054,894</u>	<u>\$ 916,334</u>
Total net assets with donor restrictions	<u>\$ 4,159,821</u>	<u>\$ 3,757,186</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 11. **Endowments** - The Organization’s endowments consist of three donor-restricted individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization follows the State Prudent Management of Institutional Funds Act (SPMIFA) and thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Board of Directors appropriates such amounts for expenditure and any other purpose restrictions have been met. The Board of Directors of the Organization has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the organization; and (7) the investment policies of the organization.

Investment Return Objectives and Spending Policies: The Organization’s Board of Directors has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The Organization complies with all donor agreements with respect to the distribution of income and principal of endowment funds which are based on investment earnings and a percentage of endowment assets.

Endowment net assets as of December 31, 2021 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 33,156</u>	<u>\$ 1,054,894</u>	<u>\$ 1,088,050</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

Note 11. **Endowments** - (Continued)

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 30,238	\$ 916,334	\$ 946,572
Contributions	-	62,841	62,841
Investment income	-	108,875	108,875
Endowment funds disbursed	(30,238)	-	(30,238)
Appropriated for expenditure	33,156	(33,156)	-
Endowment net assets, end of year	<u>\$ 33,156</u>	<u>\$ 1,054,894</u>	<u>\$ 1,088,050</u>

Endowment net assets as of December 31, 2020 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 30,238</u>	<u>\$ 916,334</u>	<u>\$ 946,572</u>

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	With Donor Restrictions	With Donor Restrictions In perpetuity	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 28,833	\$ 769,140	\$ 797,973
Contributions	-	98,367	98,367
Investment income	-	79,065	79,065
Endowment funds disbursed	(28,833)	-	(28,833)
Appropriated for expenditure	30,238	(30,238)	-
Endowment net assets, end of year	<u>\$ 30,238</u>	<u>\$ 916,334</u>	<u>\$ 946,572</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

- Note 12. **Concentration of Credit Risk** - Financial instruments which potentially subject the Organization to concentrations of credit risk include cash deposits with investment advisors, as well as deposits with financial institutions which, at times during the year, may exceed the limit of insurance coverage by the Federal Deposit Insurance Corporation (FDIC). The Organization attempts to minimize this risk by maintaining deposits at institutions it assesses as high quality. At December 31, 2021, the Organization's uninsured cash balances total \$505,389.
- Note 13. **Reclassifications** - Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation.
- Note 14. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 30, 2022, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
SCHEDULES OF ACTIVITIES
(WITHOUT DONATED SERVICES)

	FOR THE YEARS ENDED DECEMBER 31,					
	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT AND GAINS:						
Grants and contributions	\$ 4,231,319	\$ 3,535,433	\$ 7,766,752	\$ 4,146,251	\$ 3,778,822	\$ 7,925,073
Special events	1,378,107	-	1,378,107	1,255,656	-	1,255,656
PPP loan forgiveness	1,159,700	-	1,159,700	-	-	-
Investment income, net	400,921	108,875	509,796	348,685	79,065	427,750
Legal fees	141,839	-	141,839	49,302	-	49,302
Miscellaneous income	-	-	-	16,836	-	16,836
Net assets released from restrictions	3,241,673	(3,241,673)	-	3,121,086	(3,121,086)	-
TOTAL REVENUE, SUPPORT AND GAINS	<u>\$ 10,553,559</u>	<u>\$ 402,635</u>	<u>\$ 10,956,194</u>	<u>\$ 8,937,816</u>	<u>\$ 736,801</u>	<u>\$ 9,674,617</u>
EXPENSES:						
Program service	\$ 7,907,573	\$ -	\$ 7,907,573	\$ 6,947,452	\$ -	\$ 6,947,452
Management and general	1,147,479	-	1,147,479	768,793	-	768,793
Fundraising	828,090	-	828,090	671,882	-	671,882
TOTAL EXPENSES	<u>\$ 9,883,142</u>	<u>\$ -</u>	<u>\$ 9,883,142</u>	<u>\$ 8,388,127</u>	<u>\$ -</u>	<u>\$ 8,388,127</u>
CHANGES IN NET ASSETS	\$ 670,417	\$ 402,635	\$ 1,073,052	\$ 549,689	\$ 736,801	\$ 1,286,490
NET ASSETS, BEGINNING OF YEAR	<u>4,810,736</u>	<u>3,757,186</u>	<u>8,567,922</u>	<u>4,261,047</u>	<u>3,020,385</u>	<u>7,281,432</u>
NET ASSETS, END OF YEAR	<u>\$ 5,481,153</u>	<u>\$ 4,159,821</u>	<u>\$ 9,640,974</u>	<u>\$ 4,810,736</u>	<u>\$ 3,757,186</u>	<u>\$ 8,567,922</u>

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
SCHEDULE OF EXPENDITURES OF DISTRICT OF COLUMBIA AND FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

DISTRICT OF COLUMBIA/FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	DISTRICT OF COLUMBIA/ FEDERAL CFDA/ ASSISTANCE LISTING NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL DISTRICT OF COLUMBIA/ FEDERAL EXPENDITURES
<u>Non-Federal Awards</u>			
<u>Office of Victim Services and Justice Grants of the District of Columbia:</u>			
<i>Direct Programs:</i>			
Domestic Violence Victims Representation Project	2022-LAS-01	N/A	\$ 123,178
<i>Pass-through programs from District of Columbia Bar Foundation:</i>			
Civil Legal Counsel Projects Program	N/A	21-CLCPP-2286	1,100,000
<i>Access to Justice Initiative:</i>			
Southeast Neighborhood Access Project	N/A	21-ATJ-2332	385,000
Housing Justice Advocacy Project	N/A	21-ATJ-2333	165,000
Child Support Community Legal Services Project	N/A	21-ATJ-2334	155,000
Domestic Violence Underserved Holistic Representation Project	N/A	21-ATJ-2373	130,000
Consumer Law Court-Based Legal Services Project	N/A	21-ATJ-2372	70,000
Foreclosure Prevention Project	N/A	21-ATJ-2371	<u>70,000</u>
Total Access to Justice Initiative			975,000
<i>General Support:</i>			
Barbara McDowell Appellate Advocacy Project	N/A	21-GS-2309	<u>20,000</u>
Total Office of Victim Services and Justice Grants of the District of Columbia			<u>\$ 2,218,178</u>
<u>Federal Awards</u>			
<u>Department of Justice - Office for Victims of Crime:</u>			
<i>Pass-through programs from the Office of Victim Services and Justice Grants of the District of Columbia:</i>			
Victims of Crime Act (VOCA)			
Crime Assistance Program	16.575	2021-VOCA-01	\$ 366,031
<u>Executive Office of the Mayor - Immigrant Justice Legal Services:</u>			
<i>Direct Programs:</i>			
FY 2021 Immigration Justice Legal Services Grant Program	FY2021_16	N/A	\$ 73,847
FY 2022 Immigration Justice Legal Services Grant Program	FY22-018	N/A	<u>52,761</u>
Total Office of the Mayor - Immigrant Justice Legal Services			<u>\$ 126,608</u>
TOTAL EXPENDITURES OF DISTRICT OF COLUMBIA AND FEDERAL AWARDS			<u><u>\$ 2,710,817</u></u>

See accompanying notes to Schedule of Expenditures of District of Columbia and Federal Awards

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
NOTES TO SCHEDULE OF EXPENDITURES OF DISTRICT OF COLUMBIA AND FEDERAL
AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of District of Columbia and federal awards (the Schedule) includes the District of Columbia and federal award activity of Legal Aid Society of the District of Columbia under programs of the District of Columbia and federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Legal Aid Society of the District of Columbia, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Legal Aid Society of the District of Columbia.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - SUBRECIPIENTS

Legal Aid Society of the District of Columbia did not provide District of Columbia or federal awards to any subrecipients during the year ended December 31, 2021.

NOTE D - INDIRECT COST RATE

Legal Aid Society of the District of Columbia has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE E - CFDA AND GRANT AWARD NUMBERS

Legal Aid Society of the District of Columbia's awards are not related to, or passed-through from, federal programs. Therefore, Catalog of Federal Domestic Assistance (CFDA) numbers are not applicable to District of Columbia awards because they are not federal programs.

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Executive Committee
Legal Aid Society of the District of Columbia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Aid Society of the District of Columbia (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia's internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Aid Society of the District of Columbia'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not

identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Aid Society of the District of Columbia'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002.

Legal Aid Society of the District of Columbia's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sarfino and Rhodes, LLP

June 30, 2022

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

To the Executive Committee
Legal Aid Society of the District of Columbia

Report on Compliance for Each Major District of Columbia Program

Opinion on Each Major District of Columbia Program

We have audited Legal Aid Society of the District of Columbia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Legal Aid Society of the District of Columbia's major District of Columbia programs for the year ended December 31, 2021. Legal Aid Society of the District of Columbia's major District of Columbia programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Legal Aid Society of the District of Columbia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major District of Columbia programs for the year ended December 31, 2021.

Basis for Opinion on Each Major District of Columbia Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Legal Aid Society of the District of Columbia 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 Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia's District of Columbia programs.

Auditors' 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 Legal Aid Society of the District of Columbia'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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Legal Aid Society of the District of Columbia's compliance with the requirements of each major District of Columbia program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia'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 Legal Aid Society of the District of Columbia'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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002. Our opinion on each major District of Columbia program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Legal Aid Society of the District of Columbia's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Legal Aid Society of the District of Columbia's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 District of Columbia or 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 District of Columbia or 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 District of Columbia or 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be significant deficiencies.

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.

Government Auditing Standards requires the auditor to perform limited procedures on Legal Aid Society of the District of Columbia's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Legal Aid Society of the District of Columbia's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Sarpino and Rhodes, LLP

June 30, 2022

LEGAL AID SOCIETY OF THE DISTRICT OF COLUMBIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021

Section I - Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Legal Aid Society of the District of Columbia were prepared in accordance with GAAP.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses are reported.
3. No instances of non-compliance material to the financial statements of Legal Aid Society of the District of Columbia, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Two significant deficiencies in internal control over major District of Columbia award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance. No material weaknesses are reported.
5. The auditors' report on compliance for the major District of Columbia programs for Legal Aid Society of the District of Columbia expresses an unmodified opinion on all major District of Columbia programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program included:

CFDA/Assistance Listing Number	Name of District of Columbia Programs or Contract
N/A	Civil Legal Counsel Projects Program
N/A	Access to Justice Initiative

8. The threshold used for distinguishing between Types A and B programs was \$750,000.
9. Legal Aid Society of the District of Columbia was determined not to be a low-risk auditee.

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Section II - Findings - Financial Statement Audit

Significant Deficiencies

2021-001: Timesheets

Condition: Timesheets were not used during to period of January 1, 2021 through June 30, 2021. For the first half of the year, salaries were allocated based on an estimated percentage of time spent. Timesheets were used beginning July 1, 2021.

Criteria: Internal Controls should be in place that provide reasonable assurance that salaries are properly allocated. Salaries should be based on records that accurately reflect work performed.

Cause: During the first half of the year, there were no procedures in place requiring timesheets to be used.

Effect: Salaries and related personnel costs attributable to individual grants for the first half of 2021 were based upon estimates instead of actual time spent, and therefore were subject to an inherent degree of inaccuracy.

Context: For the first half of the year, we looked at 52 payroll transaction all of which the allocation to the program was determined based on an estimated percentage of time spent. For the second half of the year, we looked at 50 transactions, all of which the allocation was determined from actual time spent recorded on the timesheets.

Recommendation: We recommend Legal Aid Society of the District of Columbia continue to follow the timesheet procedures which were established July 1, 2021 to allocate salaries and related personnel costs to programs.

Views of Responsible Officials and Planned Corrective Actions: Legal Aid Society of the District of Columbia is in agreement with our finding and started using timesheets on July 1, 2021 and will continue to use timesheets going forward.

2021-002: Accounting Records for Grants

Condition: Expenses attributable to individual grants were recorded and allocated outside of the accounting software in a supplementary system of spreadsheets.

Criteria: Expenses should be recorded and allocated using a project cost accounting software so that reporting of project costs can be derived from general ledger details.

Cause: It was the Organization's policy to track expenses related to individual grants outside of the accounting software using supplementary spreadsheets.

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Effect: Reporting of project expenses is inherently subject to greater error when data is compiled in a system separate from the source transactions.

Context: To figure out what transactions were allocated to the grant we used the Grant Tracker spreadsheet since the amount allocated to grants was not broken out in the General Ledger.

Recommendation: We recommend Legal Aid Society of the District of Columbia record expenses for individual projects within the accounting software.

Views of Responsible Officials and Planned Corrective Actions: Legal Aid Society of the District of Columbia is in agreement with our finding and will start recording expenses for individual grants in its accounting software.

Section III - Findings and Questioned Costs - Major District of Columbia Award Programs Audit

2021-001: Timesheets - Refer to Section II

2021-002: Accounting Records for Grants - Refer to Section II