

**INDIANA LEGAL SERVICES, INC.**

**LSC RECIPIENT NUMBER: 515030**  
**FINANCIAL STATEMENTS**

December 31, 2020 and 2019

INDIANA LEGAL SERVICES, INC.  
Indianapolis, Indiana

FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Indiana Legal Services, Inc.  
Indianapolis, Indiana

**Report on the Financial Statements**

We have audited the accompanying financial statements of Indiana Legal Services, Inc. (ILS) which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

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(Continued)

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ILS as of December 31, 2020 and 2019, 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.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of expenditures of state and local awards are presented for purposes of additional analysis and are not a required part of the financial statements. In addition, the schedule of activities and the schedule of PAI expenses for 2020 on pages 27 and 28 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021 on our consideration of ILS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is 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 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 ILS's internal control over financial reporting and compliance.

  
Crowe LLP

Indianapolis, Indiana  
August 30, 2021

INDIANA LEGAL SERVICES, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash	\$ 2,863,682	\$ 1,087,207
Cash held in escrow	79,626	63,513
Investments	24,904	29,903
Due from grantors	812,076	595,479
Contributions receivable	4,767	79,655
Prepaid expenses and other assets	94,383	154,316
Property and equipment, net	<u>20,468</u>	<u>21,398</u>
 Total assets	 <u>\$ 3,899,906</u>	 <u>\$ 2,031,471</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 363,460	\$ 249,853
Escrow deposits	77,404	62,714
Unearned revenue	<u>1,873,445</u>	<u>329,992</u>
Total liabilities	2,314,309	642,559
 Net assets		
Without donor restrictions	1,150,272	985,658
With donor restrictions		
Legal Services Corporation (LSC)	20,468	21,398
Non-LSC	<u>414,857</u>	<u>381,856</u>
Total net assets with donor restrictions	<u>435,325</u>	<u>403,254</u>
 Total net assets	 <u>1,585,597</u>	 <u>1,388,912</u>
 Total liabilities and net assets	 <u>\$ 3,899,906</u>	 <u>\$ 2,031,471</u>

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See accompanying notes to financial statements.

INDIANA LEGAL SERVICES, INC.  
STATEMENTS OF ACTIVITIES  
Years ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue</b>						
LSC support	\$ 7,220,240	\$ -	\$ 7,220,240	\$ 7,849,160	\$ -	\$ 7,849,160
Federal support	1,848,614	-	1,848,614	1,582,291	-	1,582,291
State support	683,819	-	683,819	678,556	-	678,556
United Way support	-	78,325	78,325	-	52,163	52,163
Grants and contributions	583,137	956,614	1,539,751	311,880	1,405,086	1,716,966
Donated services	58,518	-	58,518	113,353	-	113,353
Unrealized gain (loss) on investment	(4,999)	-	(4,999)	3,888	-	3,888
Paycheck Protection Program (PPP) support	1,838,800	-	1,838,800	-	-	-
Gain on lease conversion	149,915	-	149,915	-	-	-
Net assets released from restriction	<u>1,002,868</u>	<u>(1,002,868)</u>	<u>-</u>	<u>1,318,724</u>	<u>(1,318,724)</u>	<u>-</u>
Total revenue	13,380,912	32,071	13,412,983	11,857,852	138,525	11,996,377
<b>Expenses</b>						
Program services	11,814,621	-	11,814,621	10,092,528	-	10,092,528
Management and general	1,109,455	-	1,109,455	1,285,946	-	1,285,946
Fundraising	<u>292,222</u>	<u>-</u>	<u>292,222</u>	<u>319,145</u>	<u>-</u>	<u>319,145</u>
Total expenses	<u>13,216,298</u>	<u>-</u>	<u>13,216,298</u>	<u>11,697,619</u>	<u>-</u>	<u>11,697,619</u>
Changes in net assets	164,614	32,071	196,685	160,233	138,525	298,758
Net assets, beginning of year	<u>985,658</u>	<u>403,254</u>	<u>1,388,912</u>	<u>825,425</u>	<u>264,729</u>	<u>1,090,154</u>
Net assets, end of year	<u>\$ 1,150,272</u>	<u>\$ 435,325</u>	<u>\$ 1,585,597</u>	<u>\$ 985,658</u>	<u>\$ 403,254</u>	<u>\$ 1,388,912</u>

See accompanying notes to financial statements.

INDIANA LEGAL SERVICES, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
Years ended December 31, 2020 and 2019

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Lawyer salaries	\$ 4,628,987	\$ 276,692	\$ -	\$ 4,905,679	\$ 4,194,270	\$ 283,534	\$ -	\$ 4,477,804
Paralegal salaries	1,865,881	-	-	1,865,881	1,544,038	11,868	-	1,555,906
Other staff salaries	729,670	281,819	178,019	1,189,508	625,451	265,856	177,380	1,068,687
Fringe benefits	2,159,510	124,796	63,927	2,348,233	1,968,106	115,137	73,090	2,156,333
Donated services	58,518	-	-	58,518	113,353	-	-	113,353
Litigation costs	13,787	-	-	13,787	(7,136)	1	-	(7,135)
Minor furniture and equipment	86,241	14,359	3,264	103,864	13,854	44,701	-	58,555
Law library	26,720	-	-	26,720	33,729	448	-	34,177
Contract services	616,253	389,863	41,802	1,047,918	378,933	382,768	50,904	812,605
Travel	27,461	244	1,204	28,909	98,563	35,153	3,972	137,688
Office rental	813,639	12,962	1,097	827,698	573,873	65,992	5,788	645,653
Consumable supplies	171,376	113	2	171,491	33,192	20,993	324	54,509
Telephone	100,018	930	52	101,000	109,458	16,406	899	126,763
Utilities	27,114	631	73	27,818	52,227	2,078	231	54,536
Insurance	76,442	1,816	21	78,279	63,898	2,724	25	66,647
Client and board training	269	115	-	384	-	18,021	-	18,021
Postage	65,529	1,061	1,990	68,580	45,338	1,305	2,432	49,075
Printing	10,372	297	593	11,262	11,053	1,850	3,700	16,603
Staff training and conferences	23,801	2,682	22	26,505	52,926	14,142	115	67,183
Equipment rental	53,161	1,075	156	54,392	58,116	2,969	423	61,508
Dues and fees	53,828	-	-	53,828	86,307	-	-	86,307
Other	205,114	-	-	205,114	40,700	-	(138)	40,562
Depreciation and amortization	930	-	-	930	2,279	-	-	2,279
Total expenses	<u>\$ 11,814,621</u>	<u>\$ 1,109,455</u>	<u>\$ 292,222</u>	<u>\$ 13,216,298</u>	<u>\$ 10,092,528</u>	<u>\$ 1,285,946</u>	<u>\$ 319,145</u>	<u>\$ 11,697,619</u>

See accompanying notes to financial statements.

INDIANA LEGAL SERVICES, INC.  
STATEMENT OF CASH FLOWS  
Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 196,685	\$ 298,758
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	930	2,279
Unrealized (gain) loss on investments	4,999	(3,888)
Gain on lease conversion	(149,915)	-
Changes in assets and liabilities		
Due from grantors	(216,597)	(264,277)
Contributions receivable	74,888	77,066
Prepaid expenses and other assets	59,933	49,927
Accounts payable and accrued expenses	263,522	(47,063)
Escrow deposits	14,690	-
Unearned revenue	<u>1,543,453</u>	<u>(501,737)</u>
Net cash flows from operating activities	<u>1,792,588</u>	<u>(388,935)</u>
<b>Net change in cash</b>	1,792,588	(388,935)
Cash and restricted cash, beginning of year	<u>1,150,720</u>	<u>1,539,655</u>
<b>Cash and restricted cash, end of year</b>	<u>\$ 2,943,308</u>	<u>\$ 1,150,720</u>
<b>Reconciliation of cash and restricted cash to the Statements of Financial Position:</b>		
Cash and cash equivalents	\$ 2,863,682	\$ 1,087,207
Cash held in escrow	<u>79,626</u>	<u>63,513</u>
Total cash and cash equivalents	<u>\$ 2,943,308</u>	<u>\$ 1,150,720</u>
<b>Supplemental cash flow activity:</b>		
Donated services	\$ 58,518	\$ 113,353

See accompanying notes to financial statements.



INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 1 - NATURE OF ACTIVITIES**

Indiana Legal Services, Inc. (ILS) is a not-for-profit organization organized for the purpose of providing legal assistance in noncriminal proceedings or matters to persons throughout Indiana who are financially unable to otherwise afford legal assistance. ILS is funded by grants primarily from Legal Services Corporation (LSC), a not-for-profit organization established and funded by the U.S. Congress to administer a nationwide legal assistance program. Funds received through LSC must be appropriated by Congress on an annual basis.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Method of Accounting: ILS maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation: These financial statements have been prepared in accordance with GAAP. GAAP requires that financial statements report the change in, and totals of each net asset class based on the existence of donor-imposed restrictions, as applicable. Net assets are classified as without donor restrictions or with donor restrictions and are detailed as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of ILS and/or passage of time. Also included in this category are net assets subject to donor-imposed stipulations that assets be maintained in perpetuity.

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 support, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash: Cash consists of bank deposits in accounts that are federally insured up to \$250,000 per financial institution. At times, ILS has deposits in excess of \$250,000.

Cash Held in Escrow and Escrow Deposits: Cash held in escrow represents amounts collected from clients that remain in ILS's possession. The use of these funds is limited. The excess of cash held in escrow over the corresponding liability represents funds that belong to ILS for the maintenance of the deposit accounts.

Investments: Investments consist of the common stock of one publicly traded company. Under GAAP, investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets. Interest and dividend income is recorded when earned.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of investments is based on Level 1 inputs, defined as unadjusted quoted prices for identical assets in active markets.

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INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 2 - SIGNIFICANT ACCOUNT POLICIES** (Continued)

Due from Grantors: Due from grantors represents amounts receivable from cost reimbursement grants and performance-based service contracts where allowable costs have been incurred or the services have been performed. Amounts are stated at the amount billed or expected to be collected. All amounts are due from grantors within one year.

Contributions Receivable: Contributions receivable represents unconditional promises to give that are recorded at their realizable value. Unconditional promises to give are recognized in the period the promise is made. All contributions receivable are due within one year.

Allowances: Management estimates an allowance for doubtful receivables based on an evaluation of current economic conditions, historical trends, and other factors unique to its funding sources. Management believes that receivables are fully collectible at December 31, 2020 and 2019.

Property and Equipment: Expenditures for property and equipment in excess of \$5,000 are capitalized at cost or at fair value at the date of gift. Repairs and maintenance costs that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	3 - 10 years
Leasehold improvements	5 years

Property and equipment is comprised of furniture, equipment, and leasehold improvements with a net book value of \$20,468 and \$21,398, respectively, at December 31, 2020 and 2019. All property and equipment with a remaining net book value has been acquired with LSC grant funds. Property and equipment acquired in conjunction with a grant is considered to be owned by ILS. However, LSC has a reversionary interest in the property as well as the determination of use of any proceeds from the sale of those assets.

Impairment of Long-Lived Assets: On an ongoing basis, ILS reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may be overstated. ILS recognizes impairment losses if the undiscounted cash flows expected to be generated are less than the carrying value of the related asset. If impaired, the assets are adjusted to fair value based on the discounted cash flows. No impairment is thought to exist at December 31, 2020 or 2019.

Unearned Revenue: LSC grant funds are considered a non-exchange transaction with conditions under ASU 2018-08. Unearned revenue consists of LSC funding received not yet spent as of the reporting date and therefore conditions associated with the funding are not considered met.

Revenue Recognition: Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions, consistent with the nature of the restriction.

Revenues from cost-reimbursement grants are recognized in the period in which the related expenses are incurred. Grant activities, and expenses allocated to grants, are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

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(Continued)

INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 2 - SIGNIFICANT ACCOUNT POLICIES** (Continued)

Donated Services: The financial statements include the value of legal services donated by attorneys and law students. For the years ended December 31, 2020 and 2019, donated services totaled \$58,518 and \$113,353, respectively. These amounts represent the number of hours worked by pro bono attorneys and students multiplied by the hourly rate that ILS would have paid if the services had been purchased. These services are recognized in the statements of activities both as revenue and expense and do not affect ILS's change in net assets.

Functional and Allocated Expenses: Expenses are charged directly to activities when specifically identifiable. All other costs are allocated to the activities based upon various actual statistical bases. Salaries and related expenses are charged based on the relative amount of time historically spent by personnel.

Income Taxes: ILS is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, ILS is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

ILS follows guidance issued by the FASB with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

ILS does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. ILS recognizes interest and/or penalties related to income tax matters in income tax expense. ILS did not have any amounts accrued for interest and penalties at December 31, 2020 and 2019.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2020, to determine the need for any adjustments or disclosures to the audited financial statements for the year ended December 31, 2020. Management has performed their analysis through August 30, 2021, the date the financial statements were available to be issued.

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are as follows at December 31:

	<u>2020</u>	<u>2019</u>
United Way of Central Indiana	\$ -	\$ 13,186
United Way of St. Joseph County	4,767	5,000
Districts 4 & 5 Pro Bono	-	58,157
Other	<u>-</u>	<u>3,312</u>
Total contributions receivable	<u>\$ 4,767</u>	<u>\$ 79,655</u>

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(Continued)

INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes or periods at December 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose or passage of time		
LSC – property and equipment	\$ 20,468	\$ 21,398
Indiana Bar Foundation	77,470	29,118
Anderson Foundation	55,441	49,021
Indiana AIDS Fund	49,103	145,350
ICLEO	70,739	-
Indianapolis Bar Foundation	111,580	111,597
Other	<u>50,524</u>	<u>46,770</u>
	<u>\$ 435,325</u>	<u>\$ 403,254</u>

Net assets were released from donor-imposed restrictions as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Indiana Bar Foundation	\$ 32,673	\$ 146,838
Legal assistance in specific counties	78,326	98,271
Anderson Foundation	33,580	22,479
Medical Legal Partnerships	514,083	776,524
Indiana AIDS Fund	96,247	-
Other	<u>247,959</u>	<u>274,612</u>
	<u>\$ 1,002,868</u>	<u>\$ 1,318,724</u>

**NOTE 5 - PRIVATE ATTORNEY INVOLVEMENT (PAI) EXPENSES**

ILS is required by LSC to expend 12.5% of its LSC basic field grant on PAI activities and projects. ILS requested and was granted partial waivers from LSC of \$606,109 and \$504,779 to reduce its PAI requirement for fiscal year 2020 and 2019 to \$325,000 and \$375,000, respectively.

Actual PAI expenses for the year ended December 31, 2020 and 2019 were \$393,562 and \$398,616, respectively. For 2020 and 2019, the required PAI spending threshold was met. If ILS's actual expenses for PAI activities and projects fall short of the required amounts, LSC has the ability to require the amount of the shortfall be added to the following year's PAI required spending threshold.

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(Continued)

INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 6 - LEASES**

Operating Leases: ILS leases legal and administrative offices throughout Indiana, as well as off-site electronic file hosting that expire at various dates through October 2030. ILS also leases copier machines which expire at various dates through September 2022.

Future minimum lease payments under operating leases at December 31, 2020, are as follows:

2021	\$ 583,663
2022	636,521
2023	611,540
2024	598,496
2025	613,741
Thereafter	<u>3,344,232</u>
Total future minimum payments	<u>\$ 6,388,193</u>

Total rent expense for operating leases relating to the legal and administrative offices for 2020 and 2019 was \$827,698 and \$645,653, respectively, and is included in the statements of functional expenses as office rental. Total rent expense for the copier leases and all other equipment operating leases for 2020 and 2019 was \$54,391 and \$61,508, respectively, and is included in the statements of functional expenses as equipment rental.

In 2020, ILS relocated its Indianapolis office location and entered into a new lease agreement resulting in an early termination of the previous lease agreement. The deferred rent liability previously recognized resulted in a gain on lease conversion in the amount of \$149,915 presented in the statement of activities for the year ended December 31, 2020. The new lease agreement also includes rent escalators throughout the lease term which expires in February 2031 resulting in a deferred rent liability of \$144,560 as of December 31, 2020 which is included with accounts payable and accrued expenses on the statement of financial position.

**NOTE 7 - 401(k) RETIREMENT PLAN**

ILS has an established 401(k) Profit Sharing Plan which covers all full-time employees who meet the plan's eligibility requirements. ILS contributes an amount equal to 1% of the participant's compensation plus an amount equal to the lesser of 50% of employee contributions made by each participant during the plan year or 3% of each participant's compensation. ILS made matching contributions during 2020 and 2019 of \$161,632 and \$156,686, respectively.

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(Continued)

INDIANA LEGAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 8 - CONCENTRATIONS AND CONTINGENCIES**

ILS maintains its cash in accounts which may, at times, exceed federally insured limits. ILS has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

ILS is substantially funded by grants and contracts awarded directly and indirectly by the Federal government. The majority of the agreements contain provisions that permit the arrangements to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

In accordance with the terms of its contract with LSC (ILS's major funding source), ILS may use unexpended LSC funds in future periods as long as expenses incurred are in compliance with specified terms of the LSC contract. LSC may, at its discretion, request reimbursement for expenses or return of funds, both as a result of ILS's excess LSC net assets (defined by LSC to be in excess of 10% of current year LSC funding, including interest income) or noncompliance by ILS with the terms of the LSC contract. In addition, if ILS terminates its LSC contract activities, all unused funds are to be returned to LSC.

At December 31, 2019, ILS's unexpended LSC net assets were not in excess of 10% of 2019 funding. At December 31, 2020, ILS's unexpended LSC net assets were in excess of 10% as a result of additional COVID-19 related funding received in 2020. In March 2021, LSC issued a program letter providing approval to all grant recipients to allow for the carryover of any excess LSC fund balance for the year, regardless of the amount.

**NOTE 9 - LIQUIDITY AND AVAILABILITY**

ILS's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash	\$ 2,863,682	\$ 1,087,207
Cash held in escrow	79,626	63,513
Investments	24,904	29,903
Due from grantors	812,076	595,479
Contributions receivable	<u>4,767</u>	<u>79,655</u>
Total financial assets	<u>3,784,055</u>	<u>1,855,757</u>
Less amounts not available for general expenditure within one year:		
Cash held in escrow	<u>(79,626)</u>	<u>(63,513)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,704,429</u>	<u>\$ 1,792,244</u>

As part of ILS's liquidity management, ILS invests its financial assets to be available as its general expenditures, including donor restricted funds that will be used for operating expenditures in the next year, liabilities, and other obligations come due. ILS considers net assets with donor restrictions to be part of their ongoing general operating expenditures.

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(Continued)

**NOTE 10 - COVID-19 IMPACT AND PAYCHECK PROTECTION PROGRAM**

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of ILS could be materially adversely affected by future events. Significant estimates as disclosed in Note 1, including fair values of investments, collection of receivables, contributions, and expenses, among other things, may be materially adversely impacted by national, state and local events designed to contain the coronavirus.

In April 2020, ILS obtained a Payroll Protection Program (PPP) Loan under a program offered by the United States Small Business Administration (SBA) in the amount of \$1,838,800. ILS substantially met the conditions for forgiveness as of October 2020 when the funds were fully expended on eligible activities. The entire amount of the loan has been accounted for as a conditional contribution under ASC 958-605. ILS received formal forgiveness from the SBA in July 2021.

In April 2020, ILS also received a COVID-19 Response Grant through LSC in the amount of \$1,046,048 to supporting ongoing operations during the pandemic. As of December 31, 2020, \$832,743 of the COVID-19 Response Grant was expended. The remaining unspent balance is included with unearned revenue on the statements of financial position is expected to be expended in 2021.

## **SUPPLEMENTARY INFORMATION**



INDIANA LEGAL SERVICES, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2020

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Legal Services Corporation</u>			
Basic Field	09.515030	IN-5 FY2020	\$ 6,220,245
COVID-19 Response	09.515030	CV20056	832,743
Migrant Farmworkers Project	09.515030	MIN FY2020	<u>167,252</u>
Total Legal Services Corporation			<u>7,220,240</u>
<u>U.S. Department of Health and Human Services</u>			
HIV Care Formula Grants	93.917	41660	<u>98,741</u>
Special Programs for the Aging, Title III, Part B, Grants For Supportive Services and Senior Centers Passed through from:			
CICOA, The Access Network	93.044	T3BFY 19/20	221,849
Area II Agency on Aging	93.044	ILS 18/19 19/20	14,297
Area IV & V Agency on Aging	93.044	AAA-4-A165 20	39,672
Southwest Indiana Regional Council on Aging	93.044	16	33,010
Area VI Community and Senior Services, Inc.	93.044	35-6059654	126,302
Area X Agency on Aging	93.044	35-6059654	15,511
Area XI Agency on Aging	93.044	A:11-20 18/19, 19/20	31,480
West Central Economic Development District, Inc.	93.044	LS-01 18/19, 19/20	13,750
Northwest Indiana Community Action Corp.	93.044	2/16	28,270
Agency and In-Home Services of NE Indiana	93.044	AB-38-2020	28,270
Generations	93.044	AA 0130395	4,655
Elder Law of Michigan	93.044	35-6059654	<u>2,468</u>
			<u>559,534</u>
Total U.S. Department of Health and Human Services			<u>658,275</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through from:			
City of East Chicago Department of Redevelopment Community Development Block/Entitlement Grants	14.218	N/A	15,000
<u>U.S. Department of Justice</u>			
Passed-through from:			
Equal Justice Works			
Volunteers in Service to America	94.013	2020-CVJC-014	111,982
Passed-through from:			
Indiana Criminal Justice Institute LGBT Crime Victim Assistance	16.575	VOCA-2018-00248 47417	189,314
Passed-through from:			
Indiana Criminal Justice Institute LAVA Crime Victim Assistance	16.575	VOCA-2018-0247 47414	364,847
Passed-through from:			
Indiana Criminal Justice Institute DVV Crime Victim Assistance	16.575	VOCA-2018-00250 47418	201,261
Passed-through from:			
Indiana Criminal Justice Institute IMV Crime Victim Assistance	16.575	47431	129,651
Passed-through from:			
Indiana Criminal Justice Institute WRAPP Crime Victim Assistance	16.575	47742	34,671

See accompanying note to the Schedule of Expenditures of Federal Awards.

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2020

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Justice (continued)</u>			
Passed-through from:			
Indiana Criminal Justice Institute COVID-19			
Crime Victim Assistance	16.575	48542	<u>2,410</u>
Total Crime Victim Assistance			<u>922,154</u>
Total U.S. Department of Justice			1,034,135
<u>U.S. Department of Treasury</u>			
Passed-through from:			
Internal Revenue Service			
Low Income Taxpayer Clinics	21.008	20-LITC0341-03-00	<u>76,874</u>
Total expenditures of federal awards			<u>\$ 9,004,525</u>

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See accompanying note to the Schedule of Expenditures of Federal Awards.

INDIANA LEGAL SERVICES, INC  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2020

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of ILS under programs of the federal government for the year ended December 31, 2020. 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 ILS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ILS.

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. ILS has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Board of Directors  
Indiana Legal Services, Inc.  
Indianapolis, Indiana

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 Indiana Legal Services, Inc. (ILS), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2021

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ILS'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 ILS's internal control. Accordingly, we do not express an opinion on the effectiveness of ILS's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be material weaknesses.

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(Continued)

## **Compliance and Other Matters**

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

## **ILS's Response to Findings**

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

## **Purpose of this Report**

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

  
Crowe LLP

Indianapolis, Indiana  
August 30, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE

Board of Directors  
Indiana Legal Services, Inc.  
Indianapolis, Indiana

**Report on Compliance for Each Major Federal Program**

We have audited Indiana Legal Services, Inc.'s (ILS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, and the Compliance Supplement for Audits of LSC Recipients (the LSC Compliance Supplement), issued by the Legal Services Corporation Office of Inspector General, that could have a direct and material effect on each of ILS's major federal programs for the year ended December 31, 2020. ILS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, ILS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

## **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 2020-003 and 2020-004. Our opinion on each major federal program is not modified with respect to these matters.

ILS's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. ILS's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of ILS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ILS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ILS's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2020-003 and 2020-004, that we consider to be a significant deficiencies.

ILS's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. ILS's response was not subjected to the 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.

  
Crowe LLP

Indianapolis, Indiana  
August 30, 2021

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

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**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of report the audit issued on whether the  
Financial statements audited were prepared  
In accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?                        X   Yes                             No

Significant deficiencies identified not  
considered to be material weaknesses?                             Yes                        X   None reported

Noncompliance material to financial statements noted?                             Yes                        X   No

*Federal Awards*

Internal control over major federal programs:

Material weakness(es) identified?                             Yes                        X   No

Significant deficiency(ies) identified?                        X   Yes                             None reported

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

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with 2 CFR 200.516(a)?                        X   Yes                             No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
09.515030	Legal Services Corporation Grants
16.575	Crime Victim Assistance

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

Auditee qualified as low-risk auditee?                             Yes                        X   No

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(Continued)



INDIANA LEGAL SERVICES, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

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**Section II – Financial Statement Findings**

**Finding 2020-001 – Controls Over Financial Reporting**

**Criteria:** Applicable standards state that management is responsible for having internal controls in place to provide appropriate and reliable financial reports, and to select and apply appropriate accounting principles.

**Condition:** During the audit of several key transaction cycles, it was noted that management did not have adequate controls in place over financial reporting to allow for timely, accurate financial reporting resulting in multiple audit adjustments being proposed to management.

**Context:** As a result of audit procedures performed, multiple audit adjustments were posted by management impacting various financial statement line items including due to grantor, prepaid expenses, accounts payable and accrued expenses, and unearned revenue. The net effect of the entries on the statement of activities was an increase to total revenues of approximately \$83,000 and an increase in expense of approximately \$345,000 resulted in a net decrease to the change in net assets by approximately \$262,000.

**Effect:** The existence of inaccurate transaction postings, as well as unreconciled accounts can affect the financial statement information that is available for making informed business decisions and supervision of operations. This weakness in the financial reporting controls infrastructure increases the risk of errors in the financial records and is less likely to detect irregularities, including fraud, on a timely basis. A periodic reconciliation process allows for the preparation of accurate and timely financial statements.

**Cause:** The above condition appears to be a result of a lack of internal controls surrounding review and reconciliation of key transaction cycles.

**Recommendation:** We recommend management implement internal control procedures which require general ledger accounts to be reconciled on at least a quarterly basis.

**Views of responsible officials and planned corrective actions:** Management agrees with the finding and has prepared a corrective action plan.

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

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**Section II – Financial Statement Findings (Continued)**

**Finding 2020-002 – Controls Surrounding the Preparation of Schedule of Expenditures of Federal Awards (SEFA)**

**Criteria:** Uniform Guidance, Section 200.510(b) requires the auditee prepare a complete and accurate SEFA.

**Condition:** During the testing and tie out of the SEFA to underlying accounting records, errors were noted resulting in material adjustments to the SEFA prepared by management.

**Context:** During testing of the SEFA, adjustments were made to SEFA to adjust balances to agree to underlying accounting records for various federal grants. In addition, the HIV Care Formula Grant was improperly excluded from the SEFA prepared by management.

**Effect:** Financial reporting of federal expenditures could be inaccurate or incomplete.

**Cause:** The above condition appears to be result of a lack of controls over the reporting of federal expenditures.

**Recommendation:** We recommend management implement a reconciliation of federal grant expenditures reported on the SEFA to the underlying accounting records and compare to federal grant revenue balances to assess any potential cut-off issues that could impact amounts reported on the SEFA.

**Views of responsible officials and planned corrective actions:** Management agrees with the finding and has prepared a corrective action plan.

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(Continued)

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

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**Section III – Federal Awards Findings and Questioned Costs**

**Finding 2020-003 – Allocation of Costs to Funding Sources**

**Information on the federal program:** Basic Field Grant (CFDA Number: 09.515030) – Legal Services Corporation

**Criteria:** Expenditures by a recipient are allowable under the recipient's grant or contract only if the recipient can demonstrate that the cost was: (1) actually incurred in the performance of the grant or contract and the recipient was liable for payment; (2) reasonable and necessary for the performance of the grant or contract as approved by LSC (45 CFR §1630.3(1-2)).

**Condition:** LSC Basic Field matching fund transfers are utilized by ILS to transfer LSC funds to other LSC eligible activities once non-LSC funds for the activity are fully expended but do not support all expenditures of the activities. During the audit, we noted instances in which fund transfers were made and not deemed necessary.

**Questioned Cost:** \$121,336

**Context:** ILS utilizes LSC Basic Field matching fund transfers on an annual basis to transfer LSC funds to LSC eligible activities not fully funded by non-LSC revenue sources. During our testing of LSC Basic Field matching fund transfers, we noted four instances in which transfers, in the amounts of \$122,388, \$18,430, \$2,733, and \$1,328, were made to other funds on the general ledger which were not deemed necessary as the funds had current year revenues in excess of current year expenses resulting in a total reduction of LSC expenses of \$144,879. We also noted a clerical error in supplementary schedule prepared by management to support the LSC fund transfers which resulted in a \$47,533 reduction to the LSC funds transferred. We noted one instance in which additional LSC funds in the amount of \$71,076 were required to be transferred to assist in covering expenses. The total impact was a \$121,336 reduction to the amount of LSC Basic Field matching fund transfer reported on the Schedule of Activities – Legal Services Corporation Grants and a reduction of LSC expenses reported on the Schedule of Expenditures of Federal Awards (SEFA).

**Effect:** Noncompliance with cost standards and procedure requirements set forth under LSC regulations.

**Cause:** The above condition appears to be the result of inadequate controls over the formal review and approval of LSC Basic Field matching fund transfer to other funds within the general ledger.

**Repeat Finding:** Yes. See Finding 2019-003.

**Recommendation:** We recommend ILS implement a formal procedure to review and approve LSC Basic Field matching fund transfers to other funds on an annual basis and that this review be formally documented.

**Views of responsible officials and planned corrective actions:** Management agrees with the finding and has prepared a corrective action plan.

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2020

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**Section III – Federal Awards Findings and Questioned Costs (Continued)**

**Finding 2020-004 – Timekeeping Requirements**

**Information on the federal program:** Basic Field, Migrant Farmworkers Project, COVID Response Grant (CFDA Number: 09.515030) – Legal Services Corporation

**Criteria:** Time spent by attorneys and paralegals must be documented by time records which record the amount of time spent on each case, matter, or supporting activity (45 CFR Section 1635.3(b)). Time records must be created contemporaneously and account for time in increments not greater than one-quarter of an hour which comprise all of the efforts of the attorneys and paralegals for which compensation is paid (45 CFR Section 1635.3(b)(1)).

**Condition:** Time recorded by attorneys and paralegals were not entered contemporaneously in accordance with LSC regulations and ILS' time keeping policy.

**Questioned Cost:** None.

**Context:** A sample of 16 separate selections was made of attorney and paralegal time entries from various one-week periods during 2020. The test found of the 16 selections, there were 5 selections that had a total of 41 daily entries in which time posted by attorneys and paralegals fell outside of ILS's contemporaneous timekeeping policy of 2 business days.

**Effect:** Noncompliance with timely time reporting requirements set forth under LSC regulations and ILS policy. We found no indications that during the test that ILS participated in any actual case or matter that violated LSC restrictions or prohibitions.

**Cause:** Attorneys and paralegals lack of timeliness of entering time into the Legal File system.

**Repeat Finding:** Yes. See Finding 2019-002.

**Recommendation:** We recommend ILS continue to train employees on the importance of timekeeping to ensure compliance with ILS policy and LSC regulations.

**Views of responsible officials and planned corrective actions:** Management agrees with the finding and has prepared a corrective action plan.

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF ACTIVITIES – LEGAL SERVICES CORPORATION GRANTS  
Year ended December 31, 2020

	Basic Field	Property	Migrant Farmworkers Project	COVID	Total
<b>Revenue</b>					
LSC support	\$ 6,198,519	\$ -	\$ 167,252	\$ 832,743	\$ 7,198,514
Interest income	673	-	-	-	673
Attorney fees	20,000	-	-	-	20,000
Other revenue	<u>1,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,053</u>
	6,220,245	-	167,252	832,743	7,220,240
<b>Expenses</b>					
Lawyer salaries	1,685,108	-	56,437	153,804	1,895,349
Paralegal salaries	363,865	-	10,734	92,283	466,882
Other staff salaries	512,216	-	37,443	61,522	611,181
Fringe benefits	1,214,716	-	29,375	-	1,244,091
Litigation costs	3,194	-	196	618	4,008
Minor furniture and equipment	18,040	-	1,260	51,467	70,767
Law library	12,735	-	325	-	13,060
Contract services	567,435	-	13,419	71,169	652,023
Travel	6,187	-	397	78	6,662
Office rental	-	-	9,415	379,811	389,226
Consumable supplies	126,175	-	450	16,547	143,172
Telephone	6,645	-	4,629	1,449	12,723
Utilities	12,089	-	392	1,120	13,601
Insurance	42,226	-	510	-	42,736
Client and board training	115	-	2	-	117
Postage	33,178	-	867	2,800	36,845
Printing	1,263	-	133	-	1,396
Staff training and conferences	7,475	-	410	75	7,960
Equipment rental	19,364	-	627	-	19,991
Depreciation expense	-	930	-	-	930
Dues and fees	1,945	-	60	-	2,005
Other	<u>6,034</u>	<u>-</u>	<u>171</u>	<u>-</u>	<u>6,205</u>
	<u>4,640,005</u>	<u>930</u>	<u>167,252</u>	<u>832,743</u>	<u>5,640,930</u>
Changes in net assets before transfers	1,580,240	(930)	-	-	1,579,310
<b>Interfund Transfers</b>					
LSC Basic Field matching fund transfer	(1,580,240)	-	-	-	(1,580,240)
Other transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	-	(930)	-	-	(930)
Net assets, beginning of year	<u>-</u>	<u>21,398</u>	<u>-</u>	<u>-</u>	<u>21,398</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 20,468</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,468</u>

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF PAI EXPENSES  
Year ended December 31, 2020

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	<u>2020</u>
Lawyer salaries	\$ 147,170
Paralegal salaries	56,037
Other staff salaries	36,659
Fringe benefits	69,413
Minor furniture and equipment	3,116
Law library	811
Contract services	31,438
Office rental	24,831
Consumable supplies	5,145
Telephone	3,030
Utilities	835
Insurance	2,348
Postage	2,057
Printing	338
Depreciation	28
Equipment rental	1,632
Other	<u>8,674</u>
Total PAI expenses	<u>\$ 393,562</u>

INDIANA LEGAL SERVICES, INC  
SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS  
Year ended December 31, 2020

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<u>Grantor / Program Title</u>	<u>Amount</u>
Pass-Through the Indiana Office of Court Services: Indiana Civil Legal Aid	<u>\$ 683,819</u>
Total state expenditures	<u>\$ 683,819</u>

\*\*See schedule of expenditures of federal awards on pages 14 and 15 for federal grant activity.



**INDIANA LEGAL SERVICES'  
RESPONSES TO AUDIT FINDINGS  
AUGUST 30, 2021**

Finding 2020-001

ILS acknowledges that, during the audit process, 9 audit adjustments were made leading to a decrease in net assets of \$262,000. In our view, these errors were connected to ILS's receipt of Paycheck Protection Program funds and special LSC Covid funds in 2020, amounting to nearly \$3 million in total. The special requirements attached to these grants were new to ILS (and other grant recipients) and explicitly allowed for some estimates in certain grant reports. Additionally, ILS's books carried allocations of PPP funds to salaries and rent that later had to be adjusted when we claimed salaries only (not rent) on our application for PPP forgiveness (which was granted). Both salaries and rent were allowable expenses under PPP, and our forgiveness application did not match our other financial records because of lack of coordination among ILS staff. ILS has not had significant issues of this sort in past years.

ILS will improve its processes by instituting a formal process to reconcile all its balance sheet accounts no less frequently than quarterly. We also already have adopted a practice – using new financial software acquired during 2020 – to promptly post claims for grant funds for which we submit bills; this practice will decrease or eliminate errors of the sort identified in this finding. ILS will develop a written plan to more regularly reconcile balance sheet accounts by December 31, 2021 and incorporate that process in writing in its Accounting Manual. ILS's CFO will be responsible for implementing this plan of correction.



### Finding 2020-002

ILS acknowledges errors in the draft SEFA provided to the auditor, including errors in fund amounts and omission of one new grant of federal funds passed through a private grantor. The draft SEFA provided to the auditor did not correctly reflect our accounting records for a small number of federal grants.

ILS will develop a process reconcile our SEFA reporting with underlying accounting records and compare grant revenue balances to our SEFA, including potential cut-off issues and additions of new grants. The CFO will meet no fewer than twice annually with the Director of Resource Development to ensure that all federal funds are included in the SEFA. ILS will develop a written plan to implement these changes by December 31, 2021 and incorporate the terms of that plan in our Accounting Manual. ILS's CFO will be responsible for implementing this plan of correction.

### Finding 2020-003

ILS acknowledges several adjustments that were made during the audit process to correct errors in ILS's cost allocation as reported to the auditor. These include four instances in which LSC funds were allocated to other accounts where the allocation was not required because sufficient non-LSC funds were available; one instance of LSC funds not being allocated to an account where an LSC allocation was proper; and a clerical error in an allocation amount. These errors also arose in part from the special circumstances in 2020 connected to the Paycheck Protection Program and special LSC Covid funding.

ILS will improve its process to clearly document why LSC funds are being allocated to other accounts and to show that accounts to which LSC funds are allocated require the LSC funds because other funds are not available. This process will be set up to require two individuals to approve the allocations. ILS will develop a written plan to oversee these allocation decisions, involving two individuals, by December 31, 2021 and incorporate that process in writing in its

Accounting Manual. ILS's CFO will be responsible for implementing this plan of correction.

#### Finding 2020-004

ILS acknowledges that 29 of 735 examined time entries did not meet our internal deadline for timeliness (3.9% of time entries). Some of the 41 entries flagged by the auditor were timely because they were entered on the second business day (but more than two calendar days, because of weekends) after the time was worked. A small number of other entries flagged by the auditor applied to leave time, which is not subject to the LSC timeliness requirement. The 2020 error rate is higher than in past years, and we conclude that the higher rate is related to the Covid pandemic, transitional issues associated with remote work, and some individual employee issues associated with the pandemic.

During 2020 ILS developed and implemented the capability to measure contemporaneous timekeeping through our case management system, LegalServer, which we implemented January 1, 2020. We could not obtain this capacity with our pre-2020 case management system. This system has, for the most part, allowed us to closely monitor and address timely timekeeping. We will continue to use this system, train employees on contemporaneous timekeeping, and emphasize the importance of contemporaneous timekeeping to our entire workforce.

## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

### **Finding 2019-001 – Timekeeping Requirements**

**Condition:** In one instance, time spent by attorneys and paralegals was not appropriately charged between case, matter, and supporting activity classifications in accordance with LSC regulations.

**Status:** Resolved.

### **FINDING 2019-002 – TIMEKEEPING REQUIREMENTS**

**Condition:** The case management system was unable to generate a report to confirm if time recorded by attorneys and paralegals was entered contemporaneously in accordance with LSC regulations.

**Status:** Resolved.

### **FINDING 2019-003 – ALLOCATION OF COSTS TO FUNDING SOURCES**

**Condition:** LSC Basic Field matching fund transfers are utilized by ILS to transfer LSC funds to other LSC eligible activities once non-LSC funds for the activity are fully expended but do not support all expenditures of the activities. During the audit, we noted instances in which fund transfers were made and not deemed necessary.

**Status:** Not resolved. See Finding 2020-003.