

Connecticut Legal Services, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Reports**

June 30, 2022 and 2021

Connecticut Legal Services, Inc.

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Independent Auditor's Report

To the Board of Directors
Connecticut Legal Services, Inc.

Report on the Financial Statements

We have audited the financial statements of Connecticut Legal Services, Inc. ("CLS"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CLS as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 CLS' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CLS' 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 CLS' ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues and Expenditures of the Connecticut Bar Foundation Programs is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are presented for purposes of additional analysis as required by 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 Connecticut State Single Audit Act and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2022 on our consideration of CLS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 CLS'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 CLS's internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
December 21, 2022

CONNECTICUT LEGAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|------------------------------------|---------------------|---------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,944,729 | \$ 4,568,759 |
| Cash in escrow - client funds | 500 | 4,125 |
| Short-term investments | 1,997,151 | - |
| Grants and contracts receivable | 758,363 | 657,830 |
| Promises to give | 1,834,357 | 1,765,729 |
| Other receivables | 93,670 | 21,814 |
| Prepaid expenses | 82,224 | 80,300 |
| Total Current Assets | 8,710,994 | 7,098,557 |
| Property and Equipment: | | |
| Software | 13,200 | 13,200 |
| Building and building improvements | 1,252,753 | 1,252,753 |
| Equipment | 127,605 | 120,222 |
| Leasehold improvements | 311,118 | 311,118 |
| | 1,704,676 | 1,697,293 |
| Less: accumulated depreciation | (1,048,196) | (975,709) |
| Net Property and Equipment | 656,480 | 721,584 |
| Other Assets: | | |
| Security deposits | 51,075 | 54,565 |
| Total Other Assets | 51,075 | 54,565 |
| Total Assets | \$ 9,418,549 | \$ 7,874,706 |

CONNECTICUT LEGAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Liabilities: | | |
| Accrued pension liability | \$ 5,505,371 | \$ 3,336,073 |
| Accounts payable | 424,467 | 413,959 |
| Accrued expenses | 245,605 | 240,558 |
| Refundable advances | 1,187,516 | 61,705 |
| Accrued annual leave | 442,632 | 536,538 |
| Client trust deposits | 500 | 4,125 |
| Total Liabilities | 7,806,091 | 4,592,958 |
| Net Assets (Deficiency): | | |
| Without Donor Restrictions: | | |
| Attributable to operations | 1,764,018 | (784,481) |
| Attributable to pension liability | (2,169,298) | 2,544,259 |
| Net Assets Without Donor Restrictions | (405,280) | 1,759,778 |
| Net Assets With Donor Restrictions | 2,017,738 | 1,521,970 |
| Total Net Assets (Deficiency) | 1,612,458 | 3,281,748 |
| Total Liabilities and Net Assets | \$ 9,418,549 | \$ 7,874,706 |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|--------------|
| Revenues and Support: | | | |
| Grants and contracts | \$ 3,734,606 | \$ - | \$ 3,734,606 |
| Contributions | 5,435,875 | 3,005,043 | 8,440,918 |
| Donated goods and services | 172,362 | - | 172,362 |
| Interest | 4,809 | - | 4,809 |
| Other | 159,531 | - | 159,531 |
| | 9,507,183 | 3,005,043 | 12,512,226 |
| Net assets released from restrictions | 2,509,275 | (2,509,275) | - |
| Total Revenues and Support | 12,016,458 | 495,768 | 12,512,226 |
| Expenses: | | | |
| Program services | 9,582,054 | - | 9,582,054 |
| Management and general | 1,622,363 | - | 1,622,363 |
| Fundraising | 259,744 | - | 259,744 |
| Total Expenses | 11,464,161 | - | 11,464,161 |
| Change in Net Assets: | | | |
| Before Nonoperating Activities | 552,297 | 495,768 | 1,048,065 |
| Nonoperating Activities | | | |
| Benefit plan changes other than net periodic costs | (2,717,355) | - | (2,717,355) |
| Change in Net Assets | (2,165,058) | 495,768 | (1,669,290) |
| Net Assets (Deficiency) - Beginning | 1,759,778 | 1,521,970 | 3,281,748 |
| Net Assets (Deficiency) - End | \$ (405,280) | \$ 2,017,738 | \$ 1,612,458 |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|--------------|
| Revenues and Support: | | | |
| Grants and contracts | \$ 3,434,128 | \$ - | \$ 3,434,128 |
| Contributions | 5,725,609 | 2,457,319 | 8,182,928 |
| Donated goods and services | 131,301 | - | 131,301 |
| Interest | 1,678 | - | 1,678 |
| Other | 116,795 | - | 116,795 |
| | 9,409,511 | 2,457,319 | 11,866,830 |
| Net assets released from restrictions | 2,544,028 | (2,544,028) | - |
| Total Revenues and Support | 11,953,539 | (86,709) | 11,866,830 |
| Expenses: | | | |
| Program services | 10,221,757 | - | 10,221,757 |
| Management and general | 1,717,042 | - | 1,717,042 |
| Fundraising | 285,269 | - | 285,269 |
| Total Expenses | 12,224,068 | - | 12,224,068 |
| Change in Net Assets: | | | |
| Before Nonoperating Activities | (270,529) | (86,709) | (357,238) |
| Nonoperating Activities | | | |
| Debt Extinguishment - PPP Loan | 1,674,195 | - | 1,674,195 |
| Benefit plan changes other than net periodic costs | 2,544,259 | - | 2,544,259 |
| Total Nonoperating Activities | 4,218,454 | - | 4,218,454 |
| Change in Net Assets | 3,947,925 | (86,709) | 3,861,216 |
| Net Assets (Deficiency) - Beginning | (2,188,147) | 1,608,679 | (579,468) |
| Net Assets (Deficiency) - End | \$ 1,759,778 | \$ 1,521,970 | \$ 3,281,748 |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

| | Program Services | Management and General | Fundraising | Total |
|--|---------------------|------------------------------|-------------------|----------------------|
| Personnel Expenses: | | | | |
| Salaries and wages | \$ 4,749,702 | \$ 950,772 | \$ 151,247 | \$ 5,851,721 |
| Pension plan contributions | 297,059 | 59,464 | 9,459 | 365,982 |
| Other employee benefits | 1,319,605 | 264,152 | 42,021 | 1,625,778 |
| Payroll taxes | 384,675 | 77,003 | 12,249 | 473,927 |
| Total Personnel Expenses | <u>6,751,041</u> | <u>1,351,391</u> | <u>214,976</u> | <u>8,317,408</u> |
| Non-Personnel Expenses: | | | | |
| Contractual services | 1,811,585 | 17,853 | 21,376 | 1,850,814 |
| Office expenses | 91,888 | 25,078 | 8,259 | 125,225 |
| Information technology | 84,836 | 20,870 | 1,529 | 107,235 |
| Occupancy | 480,387 | 77,205 | 6,265 | 563,857 |
| Travel | 10,458 | 3,560 | 18 | 14,036 |
| Conferences, conventions, and meetings | 3,466 | 6,373 | 233 | 10,072 |
| Insurance | 53,542 | 8,238 | 915 | 62,695 |
| Other expenses: | | | | |
| Periodicals | 26,983 | 4,152 | 461 | 31,596 |
| Court costs/legal fees | 9,166 | 7,348 | - | 16,514 |
| Occupational tax | 25,818 | - | - | 25,818 |
| Memberships | 15,198 | 2,338 | 260 | 17,796 |
| Other expenses | 47,401 | 23,808 | 5,037 | 76,246 |
| Depreciation and amortization | 71,268 | 1,056 | 163 | 72,487 |
| Donated goods & services | 99,017 | 73,093 | 252 | 172,362 |
| Total Non-Personnel Expenses | <u>2,831,013</u> | <u>270,972</u> | <u>44,768</u> | <u>3,146,753</u> |
| Total Functional Expenses | <u>\$ 9,582,054</u> | <u>\$ 1,622,363</u> | <u>\$ 259,744</u> | <u>\$ 11,464,161</u> |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

| | Program Services | Management and General | Fundraising | Total |
|--|----------------------|------------------------------|-------------------|----------------------|
| Personnel Expenses: | | | | |
| Salaries and wages | \$ 4,953,251 | \$ 984,588 | \$ 178,118 | \$ 6,115,957 |
| Pension plan contributions | 809,972 | 161,003 | 29,126 | 1,000,101 |
| Other employee benefits | 1,338,024 | 265,967 | 48,115 | 1,652,106 |
| Payroll taxes | 390,013 | 77,525 | 14,025 | 481,563 |
| Total Personnel Expenses | <u>7,491,260</u> | <u>1,489,083</u> | <u>269,384</u> | <u>9,249,727</u> |
| Non-Personnel Expenses: | | | | |
| Contractual services | 1,738,003 | 15,430 | 2,514 | 1,755,947 |
| Office expenses | 87,566 | 46,113 | 1,120 | 134,799 |
| Information technology | 73,253 | 12,694 | 712 | 86,659 |
| Occupancy | 543,000 | 66,932 | 6,988 | 616,920 |
| Travel | 3,900 | 192 | - | 4,092 |
| Conferences, conventions, and meetings | 1,413 | 2,633 | 57 | 4,103 |
| Insurance | 52,030 | 6,053 | 673 | 58,756 |
| Other expenses: | | | | |
| Periodicals | 25,227 | 2,935 | 326 | 28,488 |
| Temporary help/work study | - | 330 | - | 330 |
| Court costs/legal fees | 12,957 | 765 | - | 13,722 |
| Occupational tax | 27,120 | - | - | 27,120 |
| Memberships | 16,670 | 1,940 | 216 | 18,826 |
| Other expenses | 15,457 | 2,059 | 3,082 | 20,598 |
| Depreciation and amortization | 71,265 | 1,218 | 197 | 72,680 |
| Donated services | 62,636 | 68,665 | - | 131,301 |
| Total Non-Personnel Expenses | <u>2,730,497</u> | <u>227,959</u> | <u>15,885</u> | <u>2,974,341</u> |
| Total Functional Expenses | <u>\$ 10,221,757</u> | <u>\$ 1,717,042</u> | <u>\$ 285,269</u> | <u>\$ 12,224,068</u> |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ (1,669,290) | \$ 3,861,216 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 72,487 | 72,680 |
| Extinguishment of Debt - Paycheck Protection Program Loan | - | (1,674,195) |
| Changes in assets and liabilities: | | |
| Receivables | (241,017) | (77,799) |
| Prepaid expenses | (1,924) | 21,655 |
| Security deposits | 3,490 | - |
| Accrued pension liability | 2,169,298 | (2,509,183) |
| Accounts payable and accrued expenses | 15,555 | 73,763 |
| Refundable advances | 1,125,811 | (48,561) |
| Accrued annual leave | (93,906) | (11,928) |
| Client trust deposits | (3,625) | 300 |
| Net Cash Provided by (Used in) Operating Activities | 1,376,879 | (292,052) |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | - | 1,199,622 |
| Purchases of investments | (1,997,151) | - |
| Purchase of Property, Equipment, Software | (7,383) | - |
| Net Cash Provided by (Used in) Investing Activities | (2,004,534) | 1,199,622 |
| Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash | (627,655) | 907,570 |
| Cash, Cash Equivalents and Restricted Cash - Beginning | 4,572,884 | 3,665,314 |
| Cash, Cash Equivalents and Restricted Cash - Ending | \$ 3,945,229 | \$ 4,572,884 |

See Notes to Financial Statements.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

Connecticut Legal Services, Inc. (CLS) is a private, not-for-profit corporation committed to providing access to justice as a means of improving the lives of low-income people. CLS advocates are dedicated to representing, advising, and educating low-income individuals and families in matters relating principally to civil law, thereby helping these individuals and families secure the protection, privileges, benefits, rights, and opportunities that the law provides.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

For the year ended June 30, 2022, CLS adopted Accounting Standards Update (“ASU”) 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of CLS and will not change existing recognition and measurement requirements. CLS has implemented the provisions of ASU 2020-07 applicable to all nonfinancial assets, which has been applied retrospectively to all periods presented.

BASIS OF PRESENTATION

CLS prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). CLS reports its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets with donor restrictions represent those assets that carry restrictions related to purpose and/or passage of time. Net assets without donor restrictions represent available assets other than those that are donor restricted.

CASH AND CASH EQUIVALENTS

Cash includes all funds on hand and on deposit with financial institutions, except for CLS’s client funds. CLS maintains its cash in bank accounts, which may at times, exceed federally insured limits. Management believes that the organization’s deposits are not exposed to significant credit risk.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum of the total of the same such amount shown in the statements of cash flows:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 3,944,729 | \$ 4,568,759 |
| Cash in escrow - client funds | 500 | 4,125 |
| | <u>\$ 3,945,229</u> | <u>\$ 4,572,884</u> |

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

CASH IN ESCROW - CLIENT FUNDS

CLS holds client funds on a temporary basis in restricted cash accounts. These client funds are recorded as cash in escrow - client funds with a corresponding client trusts deposit liability on the statements of financial position.

CONTRIBUTIONS

Contributions are recognized by CLS when the donor makes a promise to give that is unconditional. A conditional contribution is a transaction where CLS has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if CLS fails to overcome the barrier. Contributions that are subject to donor-imposed conditions are recognized when the condition is met. Unconditional promises are recognized as revenue and receivables in the period in which the promise is received.

Depending on the existence and nature of donor-imposed restrictions, contributions are reported as net assets with donor restrictions or net assets without donor restrictions. Use of the donor-restricted classification is appropriate if donor-imposed restrictions either expire by the passage of time or the purpose restriction has been met. Upon satisfaction of the restriction, net assets with donor restrictions are reclassified as net assets without donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All promises to give at June 30, 2022 were expected to be collected in one year or less. All promises to give at June 30, 2021 with the exception of \$200,000 will be collected in one year or less.

CLS recognizes revenue from government grants and contracts as eligible costs are incurred and/or specified activities are performed. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to the grantor. CLS has not been informed by any agencies of any funds which are required to be returned. Grants may be considered an exchange transaction or a conditional/unconditional contribution depending on the terms of the grant. For grants considered to be unconditional contributions, revenue is recognized when awarded. Grants considered to be conditional contributions are recognized when the condition is met. Receivables are recognized to the extent eligible grant costs have been incurred but not reimbursed. Conversely, when grant advances exceed costs incurred, revenue is deferred until eligible grant costs are incurred.

CONTRACTS WITH CUSTOMERS

CLS recognizes revenue from grants and contracts at a point in time that are considered exchange transactions when it transfers control over promised services in an amount that reflects the consideration to which CLS is entitled in exchange for those services.

ESTIMATES

The preparation of financial statements in conformity with GAAP requires CLS's management to make estimates and assumptions that affect certain reported amounts and disclosures. CLS's estimates are based on assumptions about the future that are believed to be

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

reasonable based on available information at the time of measurement. Accordingly, actual results could differ from those estimates.

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing various programs and supporting services have been presented on a functional basis in the statements of functional expenses. Certain expenses attributable to more than one program or supporting function have been allocated based on reasonable assumptions and estimates made by management. Salaries and employee benefits have been allocated based on time and effort. Occupancy, office expenses, information technology, insurance, meeting expenses, memberships, and certain depreciation expenses have been allocated based on primary use of each business office.

INCOME TAXES

CLS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, CLS qualifies for the charitable contribution deduction as provided in Section 170 of the Internal Revenue Code. CLS has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Code Section 509(a). GAAP requires CLS's management to evaluate tax positions taken by CLS and recognize a tax liability (or asset) if it has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. CLS's management has analyzed the tax positions taken by CLS, and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

CLS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Interest and penalties, if any, would be recorded as part of income tax expense. CLS's management believes CLS is not subject to income tax examinations for years prior to 2019.

SHORT-TERM INVESTMENTS

Short-term investments consist of U.S. Treasury Bills with a maturity less than one year when acquired. U.S. Treasury Bills are carried at fair value.

CLS's short-term investments at June 30, 2022 are considered to be level 1 investments. The valuation techniques for these investments are obtained from real time quotes for transactions in active exchange markets. CLS had no short-term investments at June 30, 2021.

Refer to Note 11 for fair value measurement hierarchy definitions.

PROPERTY AND EQUIPMENT

CLS capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation expense on property and equipment and amortization expense on leasehold improvements and software are computed on a straight-line basis over the estimated useful lives of the assets. Furniture, fixtures, equipment and software have been assigned a five year life, building improvements a fifteen year life, buildings a twenty-five year life, and leasehold improvements at the shorter of their useful life or the life of the lease.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

Property and equipment are considered to be owned by CLS while in use for its programs. However, certain funding sources may have a reversionary interest in assets acquired with their funding, including the right to determine the disposition of any proceeds from the sales of those assets.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 21, 2022, the date that the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements were identified.

NOTE 3 — LIQUIDITY

CLS has the following financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures:

| | <u>2022</u> | <u>2021</u> |
|---|-------------------------|-------------------------|
| Cash and cash equivalents | \$ 3,944,729 | \$ 4,568,759 |
| Short-term investments | 1,997,151 | - |
| Grants receivable and Promises to give | 2,592,720 | 2,223,559 |
| Other receivables | <u>93,670</u> | <u>21,814</u> |
| | 8,628,270 | 6,814,132 |
| | | |
| Flexible benefits cash held for employees | (10,369) | (3,774) |
| Net assets with donor restrictions | <u>(2,017,738)</u> | <u>(1,521,970)</u> |
| | <u>\$ 6,600,163</u> | <u>\$ 5,288,388</u> |

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statements of financial position date. Promises to give are subject to implied time restrictions but are expected to be collected within one year. CLS has a goal to maintain financial assets, which consist of cash and short-term investments, on hand, to meet 60 days of normal operating expenses, which are, on average, approximately \$1,800,000. CLS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, CLS invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments. As more fully described in Note 8, CLS also has a committed line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

NOTE 4 — EMPLOYEE RETIREMENT PLANS

DEFINED BENEFIT PENSION PLAN

CLS maintains a defined benefit pension plan which was amended in 2007 to reflect that the plan is closed to new participants, and benefit accruals ceased on August 31, 2007. The plan utilizes the calendar year (January 1 – December 31) as its plan year.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

Participants entitled to annual pension benefits beginning at normal retirement age (65) are equal to the sum of (1) 1.25% of the employee's average monthly compensation up to covered compensation (over the five years prior to August 31, 2007) multiplied by their total number of years of service, up to a maximum of thirty years and (2) 1.9% of the their average monthly compensation (over the five years prior to August 31, 2007) in excess of 1/12th of their covered compensation multiplied by the total number of years of service, up to a maximum of thirty years.

Early retirement (age 55) is allowed, with corresponding reduced benefits, as long as the years of service requirement has been met. Death, disability and termination payouts are available according to provisions in the Plan.

CLS's funding policy is to make annual contributions to the plan in amounts within actuarially determined ranges. Participant contributions are not required or permitted under the Plan.

The Plan's investment policy mandates investment diversity to minimize large losses and establishes a goal of an absolute rate of return of 6.75%. The current investment mix, as stated in the investment policy, is comprised of 55% Fixed Income, 17.5% U.S. Large Cap Equity, 7.5% U.S. Mid Cap Equity, 15% International Equity, and 5% U.S. Small Cap Equity.

As of June 30, 2022 and 2021, Plan investments were as follows:

| | <u>2022</u> | <u>2021</u> |
|-----------------------|----------------------|----------------------|
| Mutual funds | \$ 11,521,831 | \$ 13,756,198 |
| Interest-bearing cash | <u>289,677</u> | <u>138,588</u> |
| | <u>\$ 11,811,508</u> | <u>\$ 13,894,786</u> |

The Plan's mutual fund assets at June 30, 2022 and 2021 are classified as level 1. Fair value is based on fiscal year end market quotations.

The Plan's interest-bearing cash, valued at amortized cost at June 30, 2022 and 2021, is classified as Level 2.

Refer to Note 11 for fair value measurement hierarchy definitions.

FUNDING STATUS AND PROGRESS

CLS recognizes the full amount of the funded status of its defined benefit plan as an asset or a liability in its statements of financial position. The funded status of a plan is measured as the difference between the fair value of plan assets and the projected benefit obligation.

The amount shown as projected benefit obligation is a measure of benefits attributed to service through August 31, 2007 when accrued benefits were frozen.

The projected benefit obligation at June 30, 2022 and 2021 is an actuarially computed amount based upon information provided by the Plan actuary. The significant actuarial assumptions

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

used in this update include (a) an expected long-term rate of return of 6.75% for the years ended June 30, 2022 and 2021 and (b) a discount rate of 4.50% and 2.52% for the years ended June 30, 2022 and 2021, respectively. These assumptions are based on the presumption that the Plan will continue.

The accrued pension cost recognized by CLS as a liability in its financial statements as of June 30 is as follows:

| | 2022 | 2021 |
|---------------------------------|-----------------|-----------------|
| Pension benefit obligation: | | |
| Projected benefit obligation | \$ (17,316,879) | \$ (17,230,859) |
| Fair value of plan assets | 11,811,508 | 13,894,786 |
| Underfunded benefit | | |
| obligation/accrued pension cost | \$ (5,505,371) | \$ (3,336,073) |

The change during the years ended June 30 in CLS's accrued pension cost is as follows:

| | 2022 | 2021 |
|----------------------------------|----------------|----------------|
| Accrued pension cost - beginning | \$ (3,336,073) | \$ (5,845,256) |
| Net periodic pension cost | 84,969 | (494,953) |
| Contribution | 463,088 | 459,877 |
| Asset gain / (loss) deferred | (2,717,355) | 2,544,259 |
| Accrued pension cost - end | \$ (5,505,371) | \$ (3,336,073) |

For the years ended June 30, the components of net periodic cost are:

| | 2022 | 2021 |
|---|-------------|-------------|
| Service cost | \$ 111,000 | \$ 107,500 |
| Interest cost | 420,498 | 414,281 |
| Actual return on plan assets | 1,595,205 | (2,346,876) |
| Asset gain or loss deferred | (2,507,180) | 1,571,680 |
| Amortization of unrecognized gain or loss | 295,508 | 748,368 |
| Accrued pension cost - end | \$ (84,969) | \$ 494,953 |

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

As of June 30, 2022, the following projected benefit payments are:

| | |
|----------------------------|----------------------|
| 2022-2023 | \$ 1,299,000 |
| 2023-2024 | 1,346,000 |
| 2024-2025 | 1,361,000 |
| 2025-2026 | 1,369,000 |
| 2026-2027 | 1,365,000 |
| 2027-2032 | <u>6,456,000</u> |
| Accrued pension cost - end | <u>\$ 13,196,000</u> |

Pension benefits and expenses for the years ended June 30, 2022 and 2021 were \$951,161 and \$781,061, respectively. CLS expects to contribute approximately \$420,968 to the Pension Plan in 2023. No plan assets are expected to be returned to CLS in 2023. Amounts not yet recognized as components of net periodic benefit cost consist of net unrecognized losses of \$5,888,430 and \$3,171,075 at June 30, 2022 and 2021, respectively. The estimated net loss that will be amortized from changes in net assets without donor restriction into net periodic benefit cost in the fiscal year ended June 30, 2023 is \$696,272.

401(K) PLAN

CLS maintains a 401(k) plan covering all eligible participants who perform one hour of service. Each eligible employee who becomes a participant in the plan will receive 401(k) contributions from CLS as a percentage of total salary, as specified in the Collective Bargaining Agreement. Each participant in the plan also has the option of making elective deferrals up to 100 percent of salary or the maximum allowed by law.

Employer contributions to the plan on behalf of plan participants for the years ended June 30, 2022 and 2021 were \$450,952 and \$501,258, respectively.

NOTE 5 — COMMITMENTS

OFFICE AND EQUIPMENT LEASES

CLS has six lease agreements for rental of office space throughout Connecticut, several of which are subject to increases for real estate taxes and other escalation charges. Monthly payments on these leases range from \$600 to \$10,701, the last of which expires in September 30, 2032.

CLS has leases for office equipment with unrelated third parties. The monthly payments for these leases range from \$33 to \$113, the last of which expires in fiscal year 2027.

Office and equipment lease expense for the years ended June 30, 2022 and 2021 was \$451,016 and \$510,820, respectively.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

The aggregate minimum lease commitment under all leases in effect at June 30, 2022 and leases in effect after June 30, 2021 but before issuance of these financial statements was as follows:

| | | |
|------------|----|------------------|
| 2023 | \$ | 476,679 |
| 2024 | | 485,968 |
| 2025 | | 482,022 |
| 2026 | | 473,905 |
| 2027 | | 473,263 |
| Thereafter | | <u>743,889</u> |
| | \$ | <u>3,135,726</u> |

NOTE 6 — PRINCIPAL FUNDING SOURCES/ NET ASSETS WITH DONOR RESTRICTIONS

CLS is funded through a variety of grants, contracts, and contributions from individuals, the State of Connecticut, nonprofit organizations and municipalities. A summary of funding sources over \$100,000 for the years ended June 30 is as follows:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Area Agencies on Aging (Title III) | \$ 119,965 | \$ 127,638 |
| Connecticut Bar Foundation - CFGIA | 4,708,274 | 5,303,210 |
| Connecticut Bar Foundation - IOLTA | 1,207,269 | 1,432,209 |
| Connecticut Bar Foundation - JBGIA | 753,000 | 701,451 |
| Connecticut Bar Foundation - RTC Evictions | 315,870 | - |
| Connecticut Dept. of Developmental Disabilities | 106,638 | 90,219 |
| Connecticut Department of Housing | 650,441 | 271,629 |
| Connecticut Department of Social Services | 681,868 | 683,644 |
| Connecticut Office of Victim Services | 2,108,746 | 2,124,593 |
| Jeffrey P Ossen Family Foundation | 105,333 | 68,750 |
| Paycheck Protection Program Loan Forgiveness | - | 1,674,195 |
| Program fees and Campaign donations | <u>524,643</u> | <u>391,772</u> |
| | <u>\$ 11,282,047</u> | <u>\$ 12,869,310</u> |

CLS entered into subcontracts with other non-profit legal services providers in Connecticut for the provision of services under these and other programs. Total compensation to subcontractors for the years ended June 30, 2022 and 2021 was \$1,610,630 and \$1,570,851, respectively.

Many of the funding sources noted above provide awards for future periods and are recorded as net assets with donor restrictions. Net assets with donor restrictions as of June 30, 2022 and 2021 are \$2,017,738 and \$1,521,970, respectively, and are available for operating activities in the next fiscal year.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

NOTE 7 — CONCENTRATIONS AND CONTINGENCIES

Receivables — CLS has incurred costs and recognized receivables based upon written commitments for grants and contracts from various State of Connecticut agencies, municipalities and private corporations. Although receipt of these monies is predicated on funding being available to these various agencies, it is CLS's management's opinion that these amounts are fully collectible.

Revenues — CLS received funding in excess of 10% of revenues from the Connecticut Bar Foundation's Court Fees Grants-in-Aid program (CFGIA) and Interest on Lawyer Trust Accounts (IOLTA) programs. CFGIA is sourced from certain court filing fees and IOLTA from interest earned on client funds temporarily held in escrow. In addition, CLS received funding in excess of 10% of revenues through a contract with the State of Connecticut Office of Victim Services (OVS) to provide coordinated civil legal representation for victims of domestic violence. Funding from CFGIA was \$4,708,274 and \$5,303,210 for the years ended June 30, 2022 and 2021, respectively. Funding from IOLTA was \$1,207,269 and \$1,432,209 for the years ended June 30, 2022 and 2021, respectively. Funding in the amount of \$2,108,746 and \$2,124,593 was received from OVS for the respective years ended June 30, 2022 and 2021.

CLS has received funding from various federal, state, and private sources that reserve the right to conduct audits of their funding activities. Such audits could lead to requests for reimbursements from CLS for any expenditure found to be disallowed under the terms of the funding agreement. CLS's management is of the opinion that CLS is in compliance with its various funding source agreements.

In March 2020 the World Health Organization declared the outbreak of a new coronavirus strain, COVID-19, a pandemic. Since that time, the COVID-19 pandemic has caused major disruption to the economy both at the national and state levels. CLS's operating activities, liquidity and cash flows may be adversely affected by the pandemic. Although CLS expects the disruption to be temporary, we cannot predict the duration or the depth of the disruption. Direct impacts of the disruption are expected to result in reduced funding primarily from CFGIA and IOLTA while limitations on operations may result in reduced ability to fully meet certain obligations under conditional grants.

NOTE 8 — LINE OF CREDIT

CLS has a business line of credit of \$500,000 with Webster Bank expiring on August 24, 2023. The line of credit is secured by CLS's Waterbury and Willimantic properties with an interest rate equal to the Webster Bank Prime Rate plus 1.00% per annum, reset monthly. As of June 30, 2022 and 2021, CLS had not drawn down any funds against this line of credit, nor incurred any interest charges.

NOTE 9 — LOAN PAYABLE - PPP LOAN

On May 12, 2020, CLS received loan proceeds in the amount of \$1,674,195 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. CLS' Paycheck Protection Program Loan in the amount of \$1,674,195 was fully extinguished by the Small Business Administration during the fiscal year ended June 30, 2021. There is a period of six years whereby the SBA can review the forgiveness of the loan.

NOTE 10 — COLLECTIVE BARGAINING AGREEMENT

CLS has a collective bargaining agreement with the Connecticut Legal Services Staff Association (CLSSA), members of the National Organization of Legal Services Workers (NOLSW), United Auto Workers (UAW), Local 2320. The agreement directly affects approximately 69% of CLS's employees who are members of the union and represents approximately 63% of total compensation. The current agreement with CLSSA expires on December 31, 2024.

NOTE 11 — FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). In measuring fair value, CLS uses Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 820. This standard 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 and liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. Fair value is based on fiscal year end market quotations.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are not active;
- Observable inputs other than quoted prices that are used in the valuation of the asset or liability (e.g., interest rate and yield curve quotes at commonly quoted intervals); and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability (supported by little or no market activity); Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 12 — IN-KIND CONTRIBUTIONS

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities included the following:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|-------------------|-------------------|
| Legal research publications | \$ 2,932 | \$ - |
| Storage | 6,774 | - |
| Supplies | 10,682 | - |
| Volunteer program services | 87,111 | 62,636 |
| Volunteer administrative services | <u>64,863</u> | <u>68,665</u> |
| | <u>\$ 172,362</u> | <u>\$ 131,301</u> |

Contributed legal research publications are provided by the author of Connecticut Elder Law, volume 20 edition. Contributed publications are recognized at retail rates at the time the books were received and are used in the practice of law within CLS' elder law unit.

Contributed storage is valued using estimated retail prices provided by regional storage operators for similar sized storage units. Contributed storage is used to store business personal property during the renovation of office space in CLS' Middletown office.

Contributed supplies are valued at retail rates at the time the contributions were received and are used in program and administrative services for COVID testing and personal protection in mitigating exposure to the COVID-19 virus.

Contributed volunteer program services include attorney, paralegal, and clerical services performed in various service offices for the benefit of clients and are valued based on comparable wages.

Contributed volunteer administrative services include attorney services and other professional consulting services performed for the benefit of the general administration of the agency. The value of these services is based on consulting rates provided by the respective service providers.

In addition to the in-kind contributions described above, private attorneys provide legal services to eligible persons referred to them by CLS. However, although CLS makes the referral, responsibility and control over how the particular case and person is served rests with the outside attorney. The value of this time is not recognized within CLS's financial statements as donated revenue / expense as the criteria for recognition for GAAP purposes has not been met.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022 AND 2021

NOTE 13 — CONDITIONAL GRANTS

CLS received multiple conditional grants from Federal and State government agencies. These grants in total were awarded in the amount of \$12,961,564 to assist CLS in the completion of various parts of their mission as defined in the grant. During the year ended June 30, 2022, \$4,134,182 of the conditional contribution as recorded as grant revenues upon meeting certain conditions of the grant requirements. Since the grant represents a conditional contribution, the remaining \$8,827,382 has not been recorded as contribution revenue until donor conditions are met. CLS may or may not meet conditions to fully recognize revenue of one or more contract awards prior to contract maturity.

CONNECTICUT LEGAL SERVICES, INC.
SCHEDULE OF REVENUES AND EXPENDITURES OF THE CONNECTICUT BAR FOUNDATION PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2022

| | Interest on Lawyers Trust Account | Court Fees Grants-in-Aid | Judicial Branch Grants-in-Aid | Eviction Defense Grant Program | Temporary Restraining Order Grant Program | Total |
|---|--|--------------------------------|-------------------------------------|---|--|------------------|
| Revenues and Support | \$ 1,207,269 | \$ 4,708,274 | \$ 753,000 | \$ 315,870 | \$ 37,526 | \$ 7,021,939 |
| Expenditures | | | | | | |
| Salaries and wages | 673,150 | 2,686,988 | 418,021 | 194,752 | 25,527 | 3,998,438 |
| Employee benefits | 301,922 | 1,287,426 | 187,165 | 89,418 | 8,580 | 1,874,511 |
| Payroll Taxes | 52,348 | 227,419 | 32,552 | 15,222 | 1,981 | 329,522 |
| Equipment rental & maintenance | 11,420 | 40,203 | 7,250 | - | - | 58,873 |
| Insurance | 10,278 | 38,295 | 6,578 | - | - | 55,151 |
| Library, printing & publications | 14,563 | 57,890 | 9,424 | - | - | 81,877 |
| Membership dues & fees | 2,960 | 11,095 | 1,828 | - | - | 15,883 |
| Miscellaneous | 10,666 | 51,365 | 6,859 | - | - | 68,890 |
| Occupancy | 92,539 | 329,374 | 59,147 | 16,478 | - | 497,538 |
| Postage & shipping | 981 | 3,954 | 630 | - | - | 5,565 |
| Professional fees | 17,816 | 82,401 | 11,392 | - | - | 111,609 |
| Supplies | 6,998 | 24,539 | 4,701 | - | 1,266 | 37,504 |
| Telephone | 7,797 | 29,007 | 4,989 | - | 172 | 41,965 |
| Travel & meetings | 3,831 | 16,133 | 2,464 | - | - | 22,428 |
| Total Expenditures | <u>1,207,269</u> | <u>4,886,089</u> | <u>753,000</u> | <u>315,870</u> | <u>37,526</u> | <u>7,199,754</u> |
| Revenues and Support Over Expenditures | - | (177,815) | - | - | - | (177,815) |
| Other Changes in Net Assets | | | | | | |
| Acquisition of property, equipment, software | - | - | - | - | - | - |
| Uncollectible Income | - | - | - | - | - | - |
| Change in Net Assets | - | (177,815) | - | - | - | (177,815) |
| Net Assets - Beginning | (86,123) | 1,560,881 | 353,639 | - | - | 1,828,397 |
| Net Assets - End | <u>(86,123)</u> | <u>1,383,066</u> | <u>353,639</u> | <u>-</u> | <u>-</u> | <u>1,650,582</u> |

See Notes to the Financial Statements.

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*

To the Board of Directors
Connecticut Legal Services, Inc.

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 Connecticut Legal Services, Inc. (a nonprofit entity), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Connecticut Legal Services, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Connecticut Legal Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Connecticut Legal Services, Inc.'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

CohnReznick LLP

Hartford, Connecticut
December 21, 2022

CONNECTICUT LEGAL SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2022

| Federal Grantor/Pass-Through Grantor/Program Title | Assistance Listing Number (ALN) | Pass-Through Entity Identifying Number | Program or Award Amount | Passed through to Subrecipients | Expenditures |
|--|---------------------------------------|---|-------------------------------|---------------------------------------|---------------------|
| Department of Health and Human Services: | | | | | |
| Passed Through the State of Connecticut: | | | | | |
| Department of Social Services | | | | | |
| Social Services Block Grant | 93.667 | 083-1FZ-SBG-03 / 18DSS5001FZ | 2,767,391 | \$ 257,256 | \$ 681,868 |
| | | | | <u>257,256</u> | <u>681,868</u> |
| Aging Cluster: | | | | | |
| Passed Through the Area Agencies on Aging: | | | | | |
| Special Programs For the Aging Title III, Part B | | | | | |
| Grants For Supportive Services and Senior Centers | | | | | |
| Southwestern Connecticut Area Agency on Aging | 93.044 | 22-B12-13 | 45,001 | - | 36,631 |
| Western Connecticut Area Agency on Aging | 93.044 | 2021-B-17 | 40,000 | - | 10,003 |
| Western Connecticut Area Agency on Aging | 93.044 | 2022-B-17 | 40,000 | - | 36,694 |
| Senior Resources Agency on Aging | 93.044 | E-21-1 | 42,501 | - | 8,059 |
| Senior Resources Agency on Aging | 93.044 | E-22-1 | 42,504 | - | 28,578 |
| Total Aging Cluster | | | | <u>-</u> | <u>119,965</u> |
| Passed Through the Office of Refugee Resettlement | | | | | |
| Vera Institute of Justice | | | | | |
| Unaccompanied Children Legal Services Project | 93.584 | Bridge Contract 75P00121C00019 | 51,542 | - | 21,488 |
| | | | | <u>-</u> | <u>21,488</u> |
| Total Department of Health and Human Services | | | | <u>257,256</u> | <u>823,321</u> |
| Department of Justice: | | | | | |
| Passed Through the State of Connecticut: | | | | | |
| Office of Victim Services | | | | | |
| Victims of Crime Act - Victim Assistance Grant | 16.575 | 2019-V2-GX-0031 / 02-1817-17 | 2,135,257 | 1,105,865 | 2,108,746 |
| | | | | <u>1,105,865</u> | <u>2,108,746</u> |
| Total Department of Justice | | | | <u>1,105,865</u> | <u>2,108,746</u> |
| Department of Housing and Urban Development (HUD) | | | | | |
| CDBG - Entitlement Grants Cluster | | | | | |
| Passed Through the City of Waterbury: | | | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | CD-46 | 9,874 | - | 2,469 |
| | | | | <u>-</u> | <u>2,469</u> |
| Passed Through the Town of Fairfield: | | | | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | PY-46 | 4,000 | - | 1,800 |
| Community Development Block Grant/Entitlement Grants | 14.218 | PY-47 | 4,000 | - | 3,000 |
| | | | | <u>-</u> | <u>4,800</u> |
| Total CDBG - Entitlement Grants Cluster | | | | <u>-</u> | <u>7,269</u> |
| U.S. Department of the Treasury | | | | | |
| Passed Through the State of Connecticut: | | | | | |
| Department of Housing | | | | | |
| UniteCT Legal Services Grant | 21.023 | 21DOH0501FZ | 1,000,000 | 220,145 | 650,441 |
| | | | | <u>220,145</u> | <u>650,441</u> |
| Passed Through the State of Connecticut: | | | | | |
| Connecticut Bar Foundation | | | | | |
| Coronavirus State and Local Fiscal Recovery Funds | | | | | |
| Eviction Defense Services Grant | 21.027 | JUD RFP 05-2100 | 5,878,170 | - | 315,870 |
| | | | | <u>-</u> | <u>315,870</u> |
| Total U.S. Department of the Treasury | | | | <u>220,145</u> | <u>966,311</u> |
| Total Expenditures of Federal Awards | | | | \$ <u>1,583,266</u> | \$ <u>3,905,647</u> |

See Notes to Schedule of Expenditures of Federal Awards.

CONNECTICUT LEGAL SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2022

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Connecticut Legal Services, Inc. under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Connecticut Legal Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Connecticut Legal Services, Inc.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Connecticut Legal Services, Inc. has elected to use the 10% de minimis indirect cost rate through the appropriate cognizant agency as allowed under the Uniform Guidance.

Note 3 - Delegate agencies

Included within its expenditures under the Social Service Block Grant award (CFDA #93.667) are payments to non-profit delegate agencies (New Haven Legal Assistance Association, Inc. \$104,408 and Greater Hartford Legal Aid, Inc. \$152,848) for services provided under the Grant.

Included within its expenditures under the Victims of Crime Act - Victim Assistance Grant award (CFDA #16.575) are payments to non-profit delegate agencies (New Haven Legal Assistance Association, Inc. \$333,587, Greater Hartford Legal Aid, Inc. \$386,852, Connecticut Coalition Against Domestic Violence \$265,934 and Connecticut Alliance to End Sexual Violence \$119,492) for services provided under the Grant.

Included within its expenditures under the UniteCT Legal Services Grant award (CFDA #21.023) are payments to non-profit delegate agencies (New Haven Legal Assistance Association, Inc. \$101,724, Greater Hartford Legal Aid, Inc. \$51,754, and Statewide Legal Services of Connecticut \$66,667) for services provided under the Grant.

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

To the Board of Directors
Connecticut Legal Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'s major federal programs for the year ended June 30, 2022. Connecticut Legal Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Connecticut Legal Services, Inc. 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 June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal 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 Connecticut Legal Services, Inc. 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 Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'s federal programs.

Auditor's Responsibility

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 Connecticut Legal Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Connecticut Legal Services, Inc.'s compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

CohnReznick LLP

Hartford, Connecticut
December 21, 2022

CONNECTICUT LEGAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2022

I. Summary of Auditor's Results

Financial Statements:

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

Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

 yes X no

Significant deficiency(ies) identified?

 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?

 yes X none reported

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

Unmodified Opinion

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

 yes X no

Identification of major programs:

CFDA Number(s)

16.575

Name of Federal Program or Cluster

Victims of Crime Act – Victim Assistance Grant

Dollar threshold used to distinguish between type A and type B programs

\$750,000

Auditee qualified as low-risk auditee?

 X yes no

II. Findings - Financial Statement Audit

None.

III. Findings and Questioned Costs - Major Federal Award Programs Audit

None.

CONNECTICUT LEGAL SERVICES, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2022

| State Grantor/ Pass Through Grantor/ Program Title | State Grant Program CORE - CT Number | Passed through to Subrecipients | Expenditures |
|---|---|------------------------------------|---------------------|
| <u>Department of Developmental Services</u> | | | |
| Advocacy for CARC v. Thorne class members / STS residents | 11000-DDS50148-10020-14000 | \$ - | \$ 106,638 |
| | | <u>-</u> | <u>106,638</u> |
| <u>Judicial Branch</u> | | | |
| Passed through Connecticut Bar Foundation: | | | |
| Court Fees Grants-in-Aid | 11000-JUD95162-40001-089 | - | 4,886,089 |
| Judicial Branch Grants-in-Aid | 11000-JUD95162-12516-090 | - | 753,000 |
| Temporary Restraining Order Grant Program | 11000-JUD95313-12516-22004 | - | 37,526 |
| Educational Support Services | 11000-JUD96114-12105-22004 | - | 2,000 |
| MSW Social Workers | 11000-JUD95131-12516-22004 | - | 26,191 |
| | | <u>-</u> | <u>5,704,806</u> |
| <u>Office of the Chief Public Defender</u> | | | |
| Advocacy for children and legal parties in juvenile matters | 11000-PDS98926-12076-28223 | - | 44,000 |
| | | <u>-</u> | <u>44,000</u> |
| Total Expenditures of State Financial Assistance | | <u>\$ -</u> | <u>\$ 5,855,444</u> |

See Note to Schedule of Expenditures of State Financial Assistance.

CONNECTICUT LEGAL SERVICES, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

JUNE 30, 2022

Note 1 — Basis of presentation

The accounting policies of Connecticut Legal Services, Inc. conform to accounting principles generally accepted in the United States of America for nonprofit entities.

The schedule of expenditures of state financial assistance (the "Schedule") includes state grant activity of the Organization under programs of the State of Connecticut for the fiscal year ended June 30, 2022. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut.

The Schedule is reported on the accrual basis of accounting and is presented based upon regulations established by the State of Connecticut, Office of Policy and Management. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Independent Auditor's Report on Compliance for Each Major
State Program and Report on Internal Control over Compliance
Required by the State Single Audit Act

To the Board of Directors
Connecticut Legal Services, Inc.

Report on Compliance for Each Major State Program

We have audited Connecticut Legal Services, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Connecticut Legal Services, Inc.'s major state programs for the year ended June 30, 2022. Connecticut Legal Services, Inc.'s major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Connecticut Legal Services, Inc. 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 state programs for the year ended June 30, 2022.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of State Single Audit Act (C.G.S. Sections 4-230 to 4-236) (State Single Audit Act). Our responsibilities under those standards and the State Single Audit Act are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Connecticut Legal Services, Inc. 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 state program. Our audit does not provide a legal determination of Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'s state programs.

Auditor's Responsibility

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 Connecticut Legal Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the State Single Audit Act 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 Connecticut Legal Services, Inc.'s compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the State Single Audit Act, 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 Connecticut Legal Services, Inc.'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 Connecticut Legal Services, Inc.'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 State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of Connecticut Legal Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state 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 state 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 state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

CohnReznick LLP

Hartford, Connecticut
December 21, 2022

CONNECTICUT LEGAL SERVICES, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2022**

I. Summary of Auditor's Results

Financial Statements:

| | |
|---|--|
| Type of auditor's opinion issued: | <u>Unmodified Opinion</u> |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | <u> </u> yes <u> X </u> no |
| Significant deficiency(ies) identified? | <u> </u> yes <u> X </u> none reported |
| Noncompliance material to financial statements noted? | <u> </u> yes <u> X </u> no |

State Financial Assistance:

| | |
|---|--|
| Internal control over major programs: | |
| Material weakness(es) identified? | <u> </u> yes <u> X </u> no |
| Significant deficiency(ies) identified? | <u> </u> yes <u> X </u> none reported |

| | |
|--|---------------------------|
| Type of auditor's opinion issued on compliance for major programs: | <u>Unmodified Opinion</u> |
|--|---------------------------|

| | |
|---|-----------------------------------|
| Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? | <u> </u> yes <u> X </u> no |
|---|-----------------------------------|

The following schedule reflects the major programs included in the audit:

| <u>State Grantor and Program</u> | <u>State CORE-CT Number</u> | <u>Expenditures</u> |
|---|---------------------------------|---------------------|
| Judicial Branch | | |
| Passed through Connecticut Bar Foundation: | | |
| Court Fees Grants-in-Aid | 11000-JUD95162-40001-089 | \$4,886,089 |
| Dollar threshold used to distinguish between type A and type B programs | | <u>\$ 200,000</u> |

II. Financial Statement Findings

None.

III. State Financial Assistance Findings and Questioned Costs

None.



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