

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2018 AND 2017

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR’S REPORTS

DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Legal Aid Society of Middle Tennessee and the Cumberland
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 Organization'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 Organization'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.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid Society of Middle Tennessee and the Cumberland as of December 31, 2018 and 2017, 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 MATTERS

Additional Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and schedule of support, revenue, expenses and changes in net assets for LSC funds, as required 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 Legal Services Corporation (“LSC”) *Audit Guide*, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2019 on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Aid Society of Middle Tennessee and the Cumberland’s internal control over financial reporting and compliance.



Nashville, Tennessee
April 23, 2019

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash	\$ 1,648,695	\$ 1,145,224
Investments	4,674,831	4,742,476
Accounts receivable	2,228	-
Federal, state and local grants receivable	125,794	112,349
Contributions receivable	566,511	571,447
Prepaid expenses	72,424	73,762
Property and equipment, net	374,468	335,591
Client escrow funds	<u>12,213</u>	<u>9,634</u>
 TOTAL ASSETS	 <u>\$ 7,477,164</u>	 <u>\$ 6,990,483</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 31,267	\$ 54,438
Accrued expenses and other	531,101	453,394
Client escrow deposits	<u>12,213</u>	<u>9,634</u>
 TOTAL LIABILITIES	 <u>574,581</u>	 <u>517,466</u>
 NET ASSETS		
Net assets without donor restrictions	4,348,049	4,084,883
Net assets with donor restrictions	<u>2,554,534</u>	<u>2,388,134</u>
 TOTAL NET ASSETS	 <u>6,902,583</u>	 <u>6,473,017</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 7,477,164</u>	 <u>\$ 6,990,483</u>

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			TOTAL
		LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 3,329,082	\$ 2,562,147	\$ 5,891,229	\$ 5,891,229
Contributions and foundation grants	551,642	-	1,072,419	1,072,419	1,624,061
Investment income, net	(5,197)	653	-	653	(4,544)
Attorney fees	-	13,440	-	13,440	13,440
Gain (loss) on disposal of property and equipment	47,318	47,951	-	47,951	95,269
Miscellaneous income	-	-	-	-	-
Donated services	-	1,149,717	-	1,149,717	1,149,717
Net assets released from restrictions	8,009,009	(4,299,955)	(3,709,054)	(8,009,009)	-
TOTAL REVENUES AND SUPPORT	8,602,772	240,888	(74,488)	166,400	8,769,172
OPERATING EXPENSES					
Program services	7,027,287	-	-	-	7,027,287
Supporting services:					
Management and general	1,042,731	-	-	-	1,042,731
Fundraising	269,588	-	-	-	269,588
TOTAL OPERATING EXPENSES	8,339,606	-	-	-	8,339,606
CHANGE IN NET ASSETS	263,166	240,888	(74,488)	166,400	429,566
NET ASSETS - BEGINNING OF YEAR	4,084,883	-	2,388,134	2,388,134	6,473,017
NET ASSETS - END OF YEAR	\$ 4,348,049	\$ 240,888	\$ 2,313,646	\$ 2,554,534	\$ 6,902,583

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

2017

WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 3,128,135	\$ 2,140,909	\$ 5,269,044	\$ 5,269,044
676,947	-	933,320	933,320	1,610,267
172,624	641	-	641	173,265
450	8,200	-	8,200	8,650
(53,483)	-	-	-	(53,483)
65	-	-	-	65
-	1,499,186	-	1,499,186	1,499,186
7,738,303	(4,636,162)	(3,102,141)	(7,738,303)	-
8,534,906	-	(27,912)	(27,912)	8,506,994
7,289,350	-	-	-	7,289,350
994,330	-	-	-	994,330
165,921	-	-	-	165,921
8,449,601	-	-	-	8,449,601
85,305	-	(27,912)	(27,912)	57,393
3,999,578	-	2,416,046	2,416,046	6,415,624
\$ 4,084,883	\$ -	\$ 2,388,134	\$ 2,388,134	\$ 6,473,017

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 2,275,765	\$ 144,577	\$ 45,242	\$ 2,465,584
Paralegals	636,731	-	487	637,218
Support staff	786,339	374,323	97,942	1,258,604
Employee benefits	734,625	37,351	19,378	791,354
Payroll taxes	<u>268,562</u>	<u>38,344</u>	<u>10,522</u>	<u>317,428</u>
TOTAL PERSONNEL EXPENSES	<u>4,702,022</u>	<u>594,595</u>	<u>173,571</u>	<u>5,470,188</u>
OTHER EXPENSES				
Court costs and litigation	115,964	97	-	116,061
Depreciation	86,040	-	-	86,040
Dues and fees	16,922	2,148	595	19,665
Equipment rental and other	78,270	23,569	-	101,839
Insurance	45,990	1,285	62	47,337
Occupancy	388,566	133,755	1,659	523,980
Postage	22,958	4,947	2,672	30,577
Printing and publications	69,746	3,971	16,831	90,548
Professional fees and contract services	116,715	190,958	54,843	362,516
Supplies	42,936	40,295	9,492	92,723
Telephone	48,831	17,599	62	66,492
Training	35,313	10,810	6,762	52,885
Travel	<u>107,297</u>	<u>18,702</u>	<u>3,039</u>	<u>129,038</u>
TOTAL OTHER EXPENSES	<u>1,175,548</u>	<u>448,136</u>	<u>96,017</u>	<u>1,719,701</u>
TOTAL EXPENSES BEFORE DONATED SERVICES	5,877,570	1,042,731	269,588	7,189,889
Donated services	<u>1,149,717</u>	<u>-</u>	<u>-</u>	<u>1,149,717</u>
TOTAL EXPENSES	<u>\$ 7,027,287</u>	<u>\$ 1,042,731</u>	<u>\$ 269,588</u>	<u>\$ 8,339,606</u>

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

2017

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 2,285,277	\$ 165,779	\$ 24,925	\$ 2,475,981
628,741	-	301	629,042
802,169	353,903	66,746	1,222,818
650,171	61,539	504	712,214
<u>271,217</u>	<u>36,164</u>	<u>6,685</u>	<u>314,066</u>
<u>4,637,575</u>	<u>617,385</u>	<u>99,161</u>	<u>5,354,121</u>
108,496	-	-	108,496
103,286	-	-	103,286
26,349	3,956	95	30,400
56,584	28,313	-	84,897
43,234	5,406	-	48,640
359,853	51,581	3,263	414,697
20,630	16,030	2,099	38,759
77,847	12,936	18,247	109,030
95,123	164,333	34,774	294,230
59,491	19,671	1,073	80,235
52,218	16,289	174	68,681
35,887	13,276	5,550	54,713
<u>113,591</u>	<u>45,154</u>	<u>1,485</u>	<u>160,230</u>
<u>1,152,589</u>	<u>376,945</u>	<u>66,760</u>	<u>1,596,294</u>
5,790,164	994,330	165,921	6,950,415
<u>1,499,186</u>	<u>-</u>	<u>-</u>	<u>1,499,186</u>
<u>\$ 7,289,350</u>	<u>\$ 994,330</u>	<u>\$ 165,921</u>	<u>\$ 8,449,601</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 429,566	\$ 57,393
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	86,040	103,286
(Gain) loss on disposal of property and equipment	(95,269)	53,483
Realized and unrealized gains on investments	57,220	(126,008)
(Increase) decrease in:		
Accounts receivable	(2,228)	-
Federal, state and local grants receivable	(13,445)	26,824
Contributions receivable	4,936	264,663
Prepaid expenses	1,338	(32,073)
Increase (decrease) in:		
Accounts payable	(23,171)	1,656
Accrued expenses and other	77,707	(33,879)
TOTAL ADJUSTMENTS	93,128	257,952
NET CASH PROVIDED BY OPERATING ACTIVITIES	522,694	315,345
INVESTING ACTIVITIES		
Purchases of property and equipment	(126,621)	(16,079)
Proceeds from sale of property and equipment	96,973	-
Purchases of investments	(942,599)	(574,232)
Proceeds from sale of investments	953,024	630,018
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(19,223)	39,707
NET INCREASE IN CASH	503,471	355,052
CASH - BEGINNING OF YEAR	1,145,224	790,172
CASH - END OF YEAR	\$ 1,648,695	\$ 1,145,224
SUPPLEMENTAL DISCLOSURES		
Noncash increase in prepaid expenses	\$ -	\$ 4,058

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 - NATURE OF ACTIVITIES

Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") is a not-for-profit corporation organized to provide legal services for the indigent, the elderly, victims of domestic violence and otherwise disadvantaged persons. The Organization is supported primarily through grants from Legal Services Corporation ("LSC"), an annual fund-raising campaign, various foundation grants, state and local governments and local area United Way agencies. The Organization serves 48 counties in Middle Tennessee and the Cumberland.

LSC is a not-for-profit corporation established by the United States Congress in 1974 and located in the District of Columbia. Congress appropriates federal funds annually to LSC which, in turn, makes grants to local organizations that provide legal assistance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the board of directors.
- *Net assets with donor restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor and certain grantor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

The Organization also receives grant revenue from federal, state and local agencies. Grant revenue is recognized in the period in which a liability is incurred for eligible expenditures under the terms of the grant, except the annual basic field grant from LSC, which is deemed to be a contribution and is reported as such, in accordance with the *LSC Accounting Guide for LSC Recipients*. Advances received on the basic field grant for a subsequent year are recorded as deferred revenue until the year of the award. Typically, the Organization receives four quarterly payments from the State of Tennessee's indigent fund, which are unrestricted in nature.

Any gifts of equipment or materials are reported as net assets without donor restriction unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as net assets with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash

Cash consists of operating checking accounts with financial institutions and petty cash. Cash that is designated for long-term investment is included in investments in the Statement of Financial Position.

Investments

Investments consist of cash and money market funds held for investment, certificates of deposit, equity securities and fixed income securities. Certificates of deposit are valued at cost plus accrued interest and equity and fixed income securities are carried at the quoted market value on the last business day of the reporting period. Interest and dividend income, as well as realized and unrealized gains and losses, are accounted for in accordance with donor restrictions (if any). The changes in unrealized gains and losses are recognized in the Statement of Activities.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Organization classifies its investments measured at fair value based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available) and Level 3 (securities valued based on significant unobservable inputs).

An 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. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - equity and fixed income securities - Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded, and are classified within Level 1 of the valuation hierarchy. These investments also include securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data, and other relevant elements, and are classified within Level 2 of the valuation hierarchy.

No changes in the valuation methodologies have been made since the prior year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

Unconditional promises to give, less an applicable allowance for uncollectible amounts, are recognized as revenues in the period received. Conditional promises to give are not included as support until such time as the conditions are substantially met. At December 31, 2018 and 2017, all contributions receivable were due within one year.

As of December 31, 2018 and 2017, an allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

Property and Equipment

Property and equipment are reported at cost at the date of purchase, at the carrying basis for assets transferred in from merged organizations, or at estimated fair value at date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$2,500 or more (prior to 2018, this threshold was \$1,000) and an estimated useful life of greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets (office furniture and computer equipment - 3 to 10 years; buildings and improvements - 10 to 39 years).

Property and equipment acquired with Legal Services Corporation funds are considered to be owned by the Organization. However, LSC has a reversionary interest in the property, as well as the final determination of the use of any proceeds from the sale of those assets.

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills and would have otherwise been purchased by the Organization. The Organization utilizes donated time from local area attorneys and paralegals who provide legal services to eligible clients. The donated time represents a material contribution to the Organization's operations and is recognized in the financial statements based on average hourly rates for legal services in the respective areas.

A substantial number of unpaid volunteers have contributed their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - includes activities carried out to fulfill the Organization's mission to provide free civil legal services for the indigent, the elderly, victims of domestic violence and otherwise disadvantaged persons in 48 counties in Middle Tennessee and the Cumberland. The Organization leverages resources by cooperation and coordination with bar association sponsored pro bono programs and other legal assistance resources. The Organization places a high priority on supporting the integrity, safety and well-being of family by providing assistance with preserving the home, obtaining housing, maintaining economic stability, preventing domestic violence, obtaining health care and encouraging family stability.

Supporting Services

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities related to obtaining resources, both financial support and donated legal services. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the annual fundraising campaign.

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that are consistently applied. Allocated expenses include occupancy, which is allocated on a square footage basis, as well as salaries, employee benefits, payroll taxes, professional fees and contract services, office expenses, travel, etc. which are allocated on the basis of estimates of time and effort.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization files U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax return to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there were no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) requiring an entity to recognize the amount of revenue it expects to be entitled to for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In July 2018, the FASB also issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard provides a number of practical expedients and is effective for fiscal years beginning after December 15, 2019. The Organization is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Organization is currently evaluating the impact of the adoption of this guidance on its financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2018 and April 23, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY

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, as of December 31, 2018 are as follows:

Cash and cash equivalents	\$ 1,648,695
Accounts receivable	2,228
Federal, state and local grants receivable	125,794
Contributions receivable	566,511
Investments	4,674,831
Less: net assets with donor restrictions	<u>(2,554,534)</u>
	<u>\$ 4,463,525</u>

As part of the liquidity management plan, the Organization invests cash in excess of normal requirements in short-term investments, CDs, and money market funds.

NOTE 4 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, various grants, contributions receivable, revenue and investments.

The Organization maintains cash balances and certificates of deposit at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balance may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 4 - CONCENTRATION OF CREDIT RISK (CONTINUED)

Contributions receivable consist of campaign, foundation and other organization pledges, as well as United Way receivables. Pledges receivable from four contributors approximated 75% of total contributions receivable as of December 31, 2018 (70% from four contributors in 2017). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization received approximately 44% of its revenues, excluding donated services, from Legal Services Corporation in 2018 and 2017. Revenue from one other source was approximately 18% of its revenues, excluding donated services, in 2018 and 2017.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodians of the Organization's securities are covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 5 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash and money market funds	\$ 1,860,369	\$ 1,764,015
Certificates of deposit	514,829	514,504
Equity securities	978,034	1,164,764
Fixed income securities	<u>1,321,599</u>	<u>1,299,193</u>
	<u>\$ 4,674,831</u>	<u>\$ 4,742,476</u>

The following schedule summarizes the investment income (loss) for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 65,631	\$ 60,072
Realized loss on investments	(5,183)	(20,194)
Unrealized gain (loss) on investments	(52,037)	146,202
Less: investment management fees	<u>(12,955)</u>	<u>(12,815)</u>
Investment income (loss), net	<u>\$ (4,544)</u>	<u>\$ 173,265</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 6 - FAIR VALUE MEASUREMENTS

Financial assets measured at fair value on a recurring basis consisted of the following at December 31:

	2018			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,321,599	\$ -	\$ 1,321,599
Equity securities:				
Common stock - domestic				
Basic materials	53,856	-	-	53,856
Consumer and industrial goods	220,892	-	-	220,892
Financial	51,045	-	-	51,045
Healthcare	185,695	-	-	185,695
Services	119,452	-	-	119,452
Technology	93,781	-	-	93,781
Utilities	43,150	-	-	43,150
Other	76,448	-	-	76,448
Foreign stock	44,008	-	-	44,008
Mutual funds				
Large cap	19,540	-	-	19,540
Small cap	41,592	-	-	41,592
Diversified emerging markets	28,575	-	-	28,575
<i>Total investments at fair value</i>	<u>\$ 978,034</u>	<u>\$ 1,321,599</u>	<u>\$ -</u>	<u>\$ 2,299,633</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,299,193	\$ -	\$ 1,299,193
Equity securities:				
Common stock - domestic				
Basic materials	90,690	-	-	90,690
Consumer and industrial goods	271,042	-	-	271,042
Financial	59,466	-	-	59,466
Healthcare	173,295	-	-	173,295
Services	161,469	-	-	161,469
Technology	134,843	-	-	134,843
Utilities	42,055	-	-	42,055
Other	61,416	-	-	61,416
Foreign stock	53,034	-	-	53,034
Mutual funds				
Large cap	36,936	-	-	36,936
Small cap	46,086	-	-	46,086
Diversified emerging markets	34,432	-	-	34,432
<i>Total investments at fair value</i>	<u>\$ 1,164,764</u>	<u>\$ 1,299,193</u>	<u>\$ -</u>	<u>\$ 2,463,957</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 60,000	\$ 60,000
Buildings and improvements	196,486	435,006
Office furniture and computer equipment	<u>416,202</u>	<u>562,937</u>
	672,688	1,057,943
Less accumulated depreciation	<u>(298,220)</u>	<u>(722,352)</u>
	<u>\$ 374,468</u>	<u>\$ 335,591</u>

During 2018, the Organization received approval from LSC to sell its building located in Gallatin, Tennessee. LSC required a portion of the proceeds in the amount of \$47,951 to be categorized as LSC-derived income and used as program income in accordance with LSC rules and regulations.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Contributions and receivables - time restriction	\$ 439,866	\$ 445,355
United Way receivable - time restriction	83,586	80,307
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
Legal Services Corporation program	240,888	-
THDA mortgage assistance	137,429	134,240
Foreclosure prevention and community development	-	157,814
Gilbert Foundation child advocacy	62,143	126,435
Re-entry program	93,447	-
SNAP community outreach	34,133	-
Other	<u>32,843</u>	<u>13,784</u>
	<u>\$ 2,554,534</u>	<u>\$ 2,388,134</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 9 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions include certain amounts designated by the board of directors for specific purposes. At December 31, net assets without donor restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Net investment in property and equipment	\$ 374,468	\$ 335,591
Board designated earnings on donor restricted investment	136,534	273,382
Board designated for 2019 budget	385,306	-
Undesignated	<u>3,451,741</u>	<u>3,475,910</u>
	<u>\$ 4,348,049</u>	<u>\$ 4,084,883</u>

NOTE 10 - DONATED SERVICES

Donated services consisted of the following for the years ended December 31:

	<u>2018</u>			<u>2017</u>		
	<u>Rate</u>	<u>Hours</u>	<u>Value of Donated Services</u>	<u>Rate</u>	<u>Hours</u>	<u>Value of Donated Services</u>
Attorneys	\$200 - \$275	4,063	\$ 1,006,625	\$200 - \$275	5,413	\$ 1,367,221
Paralegals	\$75	-	-	\$75	545	40,894
Law clerks	\$14	3,195	44,736	\$14	3,412	47,778
Other services			<u>98,356</u>			<u>43,293</u>
Total donated services			<u>\$ 1,149,717</u>			<u>\$ 1,499,186</u>

The number of donated service hours varies from year to year depending on the number of cases served and the complexity of those cases.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 11 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from approximately \$2,200 to \$5,100 through 2026 (excluding the Nashville office lease).

The Organization entered into a 123-month lease for a new Nashville office location, which began in April 2018. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. Minimum lease payments range from \$207,621 to \$265,772 per year. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the term of the lease. Any excess of rent expense recognized over the amount paid will be included in accrued expenses.

The Organization also leases certain office equipment under a non-cancelable operating lease expiring in September 2021.

A summary of aggregate future lease commitments for office space and office equipment in effect as of December 31, 2018, follows:

For the year ending December 31,	Office Space	Equipment	Total Lease Commitments
	Minimum Lease Commitments	Minimum Lease Commitments	
2019	\$ 418,492	\$ 22,697	\$ 441,189
2020	400,480	22,697	423,177
2021	379,600	17,022	396,622
2022	364,394	-	364,394
2023	323,264	-	323,264
Thereafter	1,308,444	-	1,308,444
	<u>\$ 3,194,674</u>	<u>\$ 62,416</u>	<u>\$ 3,257,090</u>

Total rental expense recognized under all rental agreements for the years ended December 31, 2018 and 2017 amounted to approximately \$473,000 and \$357,000, respectively, for office space and approximately \$53,000 and \$62,000, respectively, for office equipment.

NOTE 12 - RETIREMENT PLAN

The Organization's eligible employees are covered under a 401(k) retirement plan. At the discretion of the Board, contributions to the plan are made by the Organization on behalf of all eligible employees based on their compensation. The Organization contributed \$111,837 and \$107,254, respectively, for the year ended December 31, 2018 and 2017.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 13 - HEALTH INSURANCE PROGRAM

In addition to a third-party provider health insurance plan, the Organization has a self-insurance program for medical coverage of its employees and the employees' dependents. Specific individual losses for claims are limited to \$3,500 for every employee enrolled in the medical plan plus another \$3,500 for each employee that covers at least one dependent. During the years ended December 31, 2018 and 2017, expenses totaled \$66,908 and \$39,153, respectively, under the program. The Organization has accrued a liability for the expected claims that had been incurred but not paid of \$24,676 and \$6,031, respectively, as of December 31, 2018 and 2017.

NOTE 14 - FUNDRAISING EXPENSES

Fundraising expenses are comprised of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Annual fundraising campaign	\$ 142,990	\$ 136,091
Recruiting volunteer attorneys	10,954	11,567
Obtaining other financial resources	<u>115,644</u>	<u>18,263</u>
	<u>\$ 269,588</u>	<u>\$ 165,921</u>

NOTE 15 - ALLOCATION OF MATCHING FUNDS

The Organization receives the following grants which require matching funds: Greater Nashville Regional Council (Title III of the Older Americans Act Grant), the South Central Tennessee Development District Area Agency on Aging and Disability (Title III of the Older Americans Act Grants), the Tennessee Alliance for Legal Services (SSI Representation), the Tennessee Department of Finance and Administration (VOCA Grant), and the U.S. Department of Treasury (Low-Income Taxpayer Clinic Grant). The Organization is required to match 10% of the Title III Grants and TALS SSI Representation grants, 20% of the VOCA Grant, and 50% of the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2018 and 2017, these matches amounted to \$169,469 and \$174,822, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 16 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

Two donor-designated endowment funds have been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the funds and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized in the year received. The Organization received distributions in the amount of \$44,500 in the year ended December 31, 2018 (\$42,800 in 2017). Total assets held in these funds amounted to \$845,677 and \$946,787 at December 31, 2018 and 2017, respectively.

NOTE 17 - PRIVATE ATTORNEY INVOLVEMENT ("PAI")

In connection with the LSC Basic Field Grant, the Organization is required to expend 12.5% of the award amount on activities that involve private attorneys. During the year ended December 31, 2017, the Organization did not meet this requirement by \$6,210 and requested a waiver of this requirement for 2017. LSC granted the waiver, which reduced the Organization's required PAI expenditures to \$384,000 for 2017, and added the amount to the required PAI expenditures for 2018. The Organization exceeded the 2018 adjusted PAI requirements.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2018

Program Name	Federal CFDA Number		Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2017	Receipts	Program Income	Expenditures	Accrued (Deferred) Revenue 12/31/2018
<u>LEGAL SERVICES CORPORATION</u>										
Basic Field Grant	09.643040	(1)	N/A	1/01/18 - 12/31/18	\$ 3,319,082	\$ -	\$ 3,319,082	\$ 62,044	\$ 3,150,238	\$ (230,888) (a)
VIETH Leadership Grant	09.643040	(1)	14015	11/01/18 - 10/31/19	\$ 10,000	-	10,000	-	-	(10,000) (a)
<u>TOTAL LEGAL SERVICES CORPORATION</u>						-	3,329,082	62,044	3,150,238	(240,888)
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>										
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:										
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G14047	1/01/15 - 12/31/17	\$ 116,730	8,874	8,874	-	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408		FPEI8000304	3/01/18 - 2/28/21	\$ 116,730	-	27,829	-	43,155	15,326
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>						8,874	27,829	-	43,155	15,326
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>						8,874	27,829	-	43,155	15,326
<u>U.S. DEPARTMENT OF JUSTICE</u>										
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:										
Victims of Crime Act (VOCA)	16.575		26718	7/01/15 - 6/30/20	\$ 1,373,608	23,774	238,578	-	260,357	45,553
STOP Violence Against Women	16.588		26696	7/01/15 - 6/30/20	\$ 446,308	3,666	58,384	-	61,275	6,557
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>						27,440	296,962	-	321,632	52,110
PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY:										
STOP Violence Against Women	16.588		26928	8/15/15 - 6/30/18	\$ 225,000	13,573	41,965	-	28,392	-
<u>TOTAL PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY</u>						13,573	41,965	-	28,392	-
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>						41,013	338,927	-	350,024	52,110
<u>U.S. DEPARTMENT OF THE TREASURY</u>										
Low-Income Taxpayer Clinic Grant Program	21.008		16-LITC0253-01-00	1/01/17 - 12/31/17	\$ 100,000	33,448	33,448	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008		18-LITC0253-03-01	1/01/18 - 12/31/18	\$ 100,000	-	81,231	-	100,000	18,769
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>						33,448	114,679	-	100,000	18,769

(a) In accordance with the LSC Accounting Guide for LSC Recipients, these amounts are treated as net assets with donor restrictions, as opposed to deferred revenue at year-end.

(continued on next page)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2017	Receipts	Program Income	Expenditures	Accrued (Deferred) Revenue 12/31/2018
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2018-07	7/01/17 - 6/30/18	\$ 40,800	\$ 7,361	\$ 25,903	\$ -	\$ 18,542	\$ -
Legal Assistance - Title III Priority	93.044	2019-07	7/01/18 - 6/30/19	\$ 40,800	-	17,809	-	20,883	3,074
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					7,361	43,712	-	39,425	3,074
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY:									
Legal Assistance - Title III Priority	93.045	06-2018-13	7/01/17 - 6/30/18	\$ 36,500	-	18,300	-	18,300	-
Legal Assistance - Title III Priority	93.045	06-2019-13	7/01/18 - 6/30/19	\$ 36,500	-	18,200	-	18,200	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY					-	36,500	-	36,500	-
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES:									
Temporary Assistance for Needy Families - SSI Representation	93.558	GR 34530-40618	7/01/17 - 6/30/18	\$ -	8,144	32,885	-	24,741	-
Temporary Assistance for Needy Families - SSI Representation	93.558	GR 34530-40618	7/01/18 - 6/30/19	\$ -	-	24,928	-	47,940	23,012
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES					8,144	57,813	-	72,681	23,012
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					15,505	138,025	-	148,606	26,086
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 98,840	\$ 3,948,542	\$ 62,044	\$ 3,792,023	\$ (128,597)

(1) Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR)
Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Legal Aid Society of Middle Tennessee and the Cumberlands (the "Organization") under programs of the federal government for the year ended December 31, 2018. 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) and the LSC *Audit Guide*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Summary of expenditures by CFDA number

09.643040	\$ 3,150,238
14.408	43,155
16.575	260,357
16.588	89,667
21.008	100,000
93.044	39,425
93.045	36,500
93.558	72,681
Total	\$ 3,792,023

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

SCHEDULE OF SUPPORT, REVENUE, EXPENSES AND
CHANGES IN NET ASSETS FOR LSC FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Basic Field Grant	Private Attorney Involvement	VIETH Leadership Grant	Total
SUPPORT AND REVENUE				
Grants and contracts - LSC	\$ 2,836,413	\$ 482,669	\$ 10,000	\$ 3,329,082
Interest and investment income	653	-	-	653
Attorney fees	13,440	-	-	13,440
Proceeds from sale of property	47,951	-	-	47,951
Donated services	-	1,149,717	-	1,149,717
Total support and revenue	<u>2,898,457</u>	<u>1,632,386</u>	<u>10,000</u>	<u>4,540,843</u>
PERSONNEL EXPENSES				
Lawyers	759,138	190,066	-	949,204
Paralegals	125,161	24,515	-	149,676
Support staff	724,208	74,822	-	799,030
Employee benefits	157,477	26,625	-	184,102
Payroll taxes	115,657	21,710	-	137,367
Total personnel expenses	<u>1,881,641</u>	<u>337,738</u>	<u>-</u>	<u>2,219,379</u>
OTHER EXPENSES				
Donated services	-	1,149,717	-	1,149,717
Court costs and litigation	82,311	7,811	-	90,122
Equipment rental and other	74,515	2,204	-	76,719
Insurance	26,626	1,112	-	27,738
Occupancy	236,579	53,807	-	290,386
Postage	16,824	723	-	17,547
Printing and publications	52,409	1,771	-	54,180
Professional fees and contract services	129,783	71,412	-	201,195
Supplies	35,776	897	-	36,673
Telephone	44,311	1,480	-	45,791
Training	19,955	1,740	-	21,695
Travel	66,839	1,974	-	68,813
Total other expenses	<u>785,928</u>	<u>1,294,648</u>	<u>-</u>	<u>2,080,576</u>
TOTAL EXPENSES	<u>2,667,569</u>	<u>1,632,386</u>	<u>-</u>	<u>4,299,955</u>
SUPPORT AND REVENUE OVER EXPENSES	230,888	-	10,000	240,888
TOTAL CHANGES IN NET ASSETS	230,888	-	10,000	240,888
NET ASSETS - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 230,888</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 240,888</u>

OTHER REPORTS

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
Legal Aid Society of Middle Tennessee and the Cumberland
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2018-01 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

ORGANIZATION'S RESPONSE TO FINDING

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject 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.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
April 23, 2019

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

Board of Directors
Legal Aid Society of Middle Tennessee and the Cumberlands
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

We have audited Legal Aid Society of Middle Tennessee and the Cumberlands' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Legal Services Corporation (LSC) Audit Guide* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Organization'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 Regulation Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance) and the *LSC Audit Guide*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Legal Aid Society of Middle Tennessee and the Cumberland complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on 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 and the LSC *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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



Nashville, Tennessee
April 23, 2019

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Section 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

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major 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

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

_____ yes X no

Identification of major federal programs:

CFDA Number(s) Name of Federal Program or Cluster

09.643040 Legal Services Corporation - Basic Field Grant

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

PRIOR YEAR

2017-01 Year-End Close

Status: This finding has been modified in 2018-01 below.

CURRENT YEAR

2018-01 Year-End Close

CRITERIA

Management is responsible for preparing financial statements that are complete and accurate.

CONDITION

During the audit process the audit team proposed adjustments that reduced the current year change in net assets by approximately \$31,000 to properly present balances in accordance with GAAP and present accurate financial statements.

Current year adjustments included:

- To adjust current year fixed asset depreciation, reduce asset accounts for disposals, including assets related to the Gallatin property sale, and expense items below capitalization policy.
- To adjust the campaign revenue and receivable at December 31, 2018 from cash basis to accrual.
- To record donated services.
- To adjust deferred lease expense to reflect straight-line basis.

CAUSE

Certain activity was omitted from the books and records due to an oversight in the final review process of the financial statement accounts.

EFFECT

The effect of the adjustments was as follows: assets increased approximately \$21,500, liabilities increased approximately \$52,500 and current year change in net assets decreased approximately \$31,000.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2018-01 Year-End Close (Continued)

RECOMMENDATION

We recommend modifying the year-end closing checklist to include review of the property and equipment accounts and reconciliation to the general ledger, as well as reviewed deferred lease expense calculations. In the current year, adjustments posted by the auditor were considerably less than in the prior year. We do recommend all general ledger accounts be properly reconciled at year-end, and, in the event of unusual or non-routine activity during the year, that the Director of Finance double-check the accounting prior to final close and audit of the books and records.

MANAGEMENTS RESPONSE

The Organization's management takes responsibility in the oversight of recording of certain activity of the year due to not making a final review of certain financial statement items before closing. We have updated our closing checklist to include these additional items.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PRIOR YEAR

There were no prior year findings.

CURRENT YEAR

There are no current year findings.