

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2015 AND 2014

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2015 AND 2014

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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, 2015 and 2014, 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 Cumberlands as of December 31, 2015 and 2014, 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 August 9, 2016 on our consideration of Legal Aid Society of Middle Tennessee and the Cumberlands’ 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Aid Society of Middle Tennessee and the Cumberlands’ internal control over financial reporting and compliance.

Kraj+CPAs PLLC

Nashville, Tennessee
April 26, 2016, except for Note 10 as of August 9, 2016

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash	\$ 522,761	\$ 652,504
Investments	4,769,638	4,423,409
Accounts receivable	1,138	31,896
Federal, state and local grants receivable	108,412	159,281
Contributions receivable	505,580	506,718
Prepaid expenses	33,359	25,267
Property and equipment, net	435,788	307,508
Client escrow funds	<u>21,609</u>	<u>29,939</u>
 TOTAL ASSETS	 <u>\$ 6,398,285</u>	 <u>\$ 6,136,522</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 22,440	\$ 69,438
Accrued expenses and other	520,142	434,278
Client escrow deposits	<u>21,609</u>	<u>29,939</u>
 TOTAL LIABILITIES	 <u>564,191</u>	 <u>533,655</u>
 NET ASSETS		
Unrestricted:		
Undesignated	3,147,096	3,240,291
Designated for property and equipment	<u>435,788</u>	<u>307,508</u>
 Total unrestricted	 3,582,884	 3,547,799
 Temporarily restricted	 <u>2,251,210</u>	 <u>2,055,068</u>
 TOTAL NET ASSETS	 <u>5,834,094</u>	 <u>5,602,867</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,398,285</u>	 <u>\$ 6,136,522</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, 2015 AND 2014

	2015				
		TEMPORARILY RESTRICTED			
	UNRESTRICTED	LSC	NON-LSC	TOTAL	TOTAL
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 3,077,716	\$ 2,181,403	\$ 5,259,119	\$ 5,259,119
Contributions and foundation grants	784,088	-	889,519	889,519	1,673,607
Investment income (loss), net	(47,292)	901	-	901	(46,391)
Attorney fees	8,438	23,582	-	23,582	32,020
Gain on disposal of property and equipment	145,141	-	-	-	145,141
Miscellaneous income	25	-	-	-	25
Donated services	-	1,938,621	-	1,938,621	1,938,621
Net assets released from restrictions	7,915,600	(5,040,820)	(2,874,780)	(7,915,600)	-
TOTAL REVENUES AND SUPPORT	8,806,000	-	196,142	196,142	9,002,142
OPERATING EXPENSES					
Program services	7,543,099	-	-	-	7,543,099
Supporting services:					
Management and general	967,386	-	-	-	967,386
Fundraising	260,430	-	-	-	260,430
TOTAL OPERATING EXPENSES	8,770,915	-	-	-	8,770,915
CHANGE IN NET ASSETS	35,085	-	196,142	196,142	231,227
NET ASSETS - BEGINNING OF YEAR	3,547,799	-	2,055,068	2,055,068	5,602,867
NET ASSETS - END OF YEAR	\$ 3,582,884	\$ -	\$ 2,251,210	\$ 2,251,210	\$ 5,834,094

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

2014

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 3,044,674	\$ 1,809,694	\$ 4,854,368	\$ 4,854,368
740,957	-	626,452	626,452	1,367,409
148,977	1,454	-	1,454	150,431
18,868	58,329	-	58,329	77,197
-	-	-	-	-
885	-	-	-	885
-	2,508,242	-	2,508,242	2,508,242
8,088,945	(5,612,699)	(2,476,246)	(8,088,945)	-
8,998,632	-	(40,100)	(40,100)	8,958,532
7,620,632	-	-	-	7,620,632
940,210	-	-	-	940,210
212,995	-	-	-	212,995
8,773,837	-	-	-	8,773,837
224,795	-	(40,100)	(40,100)	184,695
3,323,004	-	2,095,168	2,095,168	5,418,172
\$ 3,547,799	\$ -	\$ 2,055,068	\$ 2,055,068	\$ 5,602,867

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 2,141,469	\$ 143,318	\$ 17,514	\$ 2,302,301
Paralegals	615,178	-	-	615,178
Support staff	813,536	285,589	103,619	1,202,744
Employee benefits	599,686	67,554	8,497	675,737
Payroll taxes	<u>261,768</u>	<u>32,364</u>	<u>6,105</u>	<u>300,237</u>
TOTAL PERSONNEL EXPENSES	<u>4,431,637</u>	<u>528,825</u>	<u>135,735</u>	<u>5,096,197</u>
OTHER EXPENSES				
Court costs and litigation	103,127	-	-	103,127
Depreciation	85,713	-	-	85,713
Dues and fees	26,029	2,696	750	29,475
Equipment rental and other	62,587	14,974	76	77,637
Insurance	31,356	4,590	126	36,072
Occupancy	337,630	63,294	3,301	404,225
Postage	22,927	7,395	8,431	38,753
Printing and publications	71,481	8,764	23,350	103,595
Professional fees and contract services	157,145	190,895	80,556	428,596
Supplies	68,891	85,411	1,439	155,741
Telephone	72,171	18,025	-	90,196
Training	32,594	6,638	6,612	45,844
Travel	<u>101,190</u>	<u>35,879</u>	<u>54</u>	<u>137,123</u>
	<u>1,172,841</u>	<u>438,561</u>	<u>124,695</u>	<u>1,736,097</u>
TOTAL EXPENSES BEFORE DONATED SERVICES	5,604,478	967,386	260,430	6,832,294
Donated services	<u>1,938,621</u>	<u>-</u>	<u>-</u>	<u>1,938,621</u>
TOTAL EXPENSES	<u>\$ 7,543,099</u>	<u>\$ 967,386</u>	<u>\$ 260,430</u>	<u>\$ 8,770,915</u>

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

2014

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 2,064,471	\$ 141,534	\$ 14,195	\$ 2,220,200
586,125	-	-	586,125
797,190	300,504	76,416	1,174,110
478,721	44,983	9,026	532,730
<u>252,683</u>	<u>31,354</u>	<u>6,612</u>	<u>290,649</u>
<u>4,179,190</u>	<u>518,375</u>	<u>106,249</u>	<u>4,803,814</u>
75,612	832	-	76,444
75,005	-	-	75,005
23,998	3,300	50	27,348
37,962	17,361	5,438	60,761
30,579	4,660	57	35,296
298,048	52,396	3,319	353,763
23,231	18,787	4,216	46,234
76,944	5,492	19,676	102,112
71,031	223,415	67,582	362,028
37,686	27,755	1,536	66,977
60,898	32,726	113	93,737
26,759	7,008	3,877	37,644
<u>95,447</u>	<u>28,103</u>	<u>882</u>	<u>124,432</u>
<u>933,200</u>	<u>421,835</u>	<u>106,746</u>	<u>1,461,781</u>
5,112,390	940,210	212,995	6,265,595
<u>2,508,242</u>	<u>-</u>	<u>-</u>	<u>2,508,242</u>
<u>\$ 7,620,632</u>	<u>\$ 940,210</u>	<u>\$ 212,995</u>	<u>\$ 8,773,837</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 231,227	\$ 184,695
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	85,713	75,005
Gain on disposal of property and equipment	(145,141)	-
Realized and unrealized (gains) losses on investments	82,000	(95,576)
(Increase) decrease in:		
Accounts receivable	30,758	(28,136)
Federal, state and local grants receivable	50,869	(53,163)
Contributions receivable	1,138	46,636
Prepaid expenses	(8,092)	474
Increase (decrease) in:		
Accounts payable	(46,998)	25,743
Accrued expenses and other	85,864	5,477
TOTAL ADJUSTMENTS	<u>136,111</u>	<u>(23,540)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>367,338</u>	<u>161,155</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(228,610)	(86,200)
Insurance proceeds from Murfreesboro fire	159,758	-
Purchases of investments	(1,051,171)	(467,167)
Proceeds from sale of investments	<u>622,942</u>	<u>747,639</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(497,081)</u>	<u>194,272</u>
NET INCREASE (DECREASE) IN CASH	(129,743)	355,427
CASH - BEGINNING OF YEAR	<u>652,504</u>	<u>297,077</u>
CASH - END OF YEAR	<u>\$ 522,761</u>	<u>\$ 652,504</u>

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, 2015 AND 2014

NOTE 1 - NATURE OF ACTIVITIES

Legal Aid Society of Middle Tennessee and the Cumberlandds (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 Cumberlandds.

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").

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income, or specific portions thereof, be used for operations. The Organization had no permanently restricted net assets as of December 31, 2015 and 2014.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

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 unrestricted support 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 restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents

Cash consists of operating checking accounts with financial institutions and petty cash. Cash and cash equivalents that are designated for long-term investment are 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 (temporarily restricted) or, in the absence of specific donor restrictions, as unrestricted. 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, 2015 AND 2014

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, 2015 AND 2014

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, 2015 and 2014, all contributions receivable were due within one year.

As of December 31, 2015 and 2014, 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 \$1,000 or more 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, 2015 AND 2014

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

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2015 and April 26, 2016, except for Note 10 which is as of August 9, 2016, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 3 - 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.

Contributions receivable consist of corporate contribution pledges, along with United Way receivables. Pledges and receivables from three contributors approximated 52% of total contributions receivable as of December 31, 2015 (55% in 2014). 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 2015 (47% in 2014). Revenue from one other source was approximately 17% of its revenues, excluding donated services, in 2015 (14% in 2014).

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 1,932,378	\$ 1,914,057
Certificates of deposit	1,311,339	913,645
Equity securities	1,055,272	1,189,406
Fixed income securities	<u>470,649</u>	<u>406,301</u>
	<u>\$ 4,769,638</u>	<u>\$ 4,423,409</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 47,839	\$ 67,448
Realized loss on investments	(4,187)	(13,232)
Unrealized gain (loss) on investments	(77,813)	108,808
Less: investment management fees	<u>(12,230)</u>	<u>(12,593)</u>
Net investment income (loss)	<u>\$ (46,391)</u>	<u>\$ 150,431</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 5 - FAIR VALUE MEASUREMENTS

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

	2015			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 470,649	\$ -	\$ 470,649
Equity securities:				
Common stock - domestic				
Basic materials	86,356	-	-	86,356
Consumer and industrial goods	218,548	-	-	218,548
Financial	46,214	-	-	46,214
Healthcare	173,411	-	-	173,411
Services	147,624	-	-	147,624
Technology	102,384	-	-	102,384
Utilities	35,695	-	-	35,695
Conglomerates	56,070	-	-	56,070
Other	49,014	-	-	49,014
Foreign stock	47,100	-	-	47,100
Mutual funds				
Large cap	35,290	-	-	35,290
Small cap	33,033	-	-	33,033
Diversified emerging markets	24,533	-	-	24,533
<i>Total investments at fair value</i>	<u>\$ 1,055,272</u>	<u>\$ 470,649</u>	<u>\$ -</u>	<u>\$ 1,525,921</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 406,301	\$ -	\$ 406,301
Equity securities:				
Common stock - domestic				
Basic materials	104,356	-	-	104,356
Consumer and industrial goods	224,234	-	-	224,234
Financial	60,060	-	-	60,060
Healthcare	217,362	-	-	217,362
Services	156,530	-	-	156,530
Technology	92,761	-	-	92,761
Utilities	55,638	-	-	55,638
Conglomerates	45,486	-	-	45,486
Other	66,402	-	-	66,402
Foreign stock	52,400	-	-	52,400
Mutual funds				
Large cap	49,944	-	-	49,944
Small cap	34,218	-	-	34,218
Diversified emerging markets	30,015	-	-	30,015
<i>Total investments at fair value</i>	<u>\$ 1,189,406</u>	<u>\$ 406,301</u>	<u>\$ -</u>	<u>\$ 1,595,707</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	424,036	463,386
Office furniture and computer equipment	517,839	596,938
Construction in progress	<u>47,457</u>	<u>-</u>
	1,072,332	1,143,324
Less accumulated depreciation	<u>(636,544)</u>	<u>(835,816)</u>
	<u><u>\$ 435,788</u></u>	<u><u>\$ 307,508</u></u>

During 2015, the Organization's Murfreesboro office was severely damaged by fire. The Organization received \$159,758 in insurance proceeds that will be used to offset the cost to rebuild and replace contents. At December 31, 2015, construction in progress includes those costs incurred to date on the building. The office is expected to be completed in May 2016 at an additional cost of approximately \$70,000.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Contributions and receivables - time restriction	\$ 517,789	\$ 529,112
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
THDA mortgage assistance	144,783	-
Skadden fellowship	17,693	-
Legal services for seniors	25,606	-
Other	39,072	16,842
United Way receivable - time restriction	<u>76,068</u>	<u>78,915</u>
	<u><u>\$ 2,251,210</u></u>	<u><u>\$ 2,055,068</u></u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 8 - DONATED SERVICES

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

	<u>2015</u>			<u>2014</u>		
			Value of			Value of
	Rate	Hours	Donated	Rate	Hours	Donated
			Services			Services
Attorneys	\$200 - \$275	7,440	\$1,871,284	\$200 - \$275	9,436	\$2,431,143
Paralegals	\$75	269	20,198	\$75	247	18,556
Law clerks	\$14	2,211	30,949	\$14	2,732	38,249
Other services			<u>16,190</u>			<u>20,294</u>
Total donated services			<u>\$1,938,621</u>			<u>\$2,508,242</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.

NOTE 9 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from \$650 to \$4,300 through 2022 (excluding the Nashville office lease).

The Organization's Nashville office is leased under a non-cancelable operating lease that was extended on December 31, 2012 for an additional five years. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. Minimum lease payments range from \$170,579 to \$173,990 per annum for the remaining term of the lease. 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. The excess of rent expense recognized over the amount paid is included in accrued expenses.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 9 - LEASES (CONTINUED)

The Organization also leases certain office equipment under a non-cancelable operating lease expiring in September 2016.

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2015, follows:

For the year ending December 31,	Office Space	Equipment	Total Lease Commitments
	Minimum Lease Commitments	Minimum Lease Commitments	
2016	\$ 272,757	\$ 20,249	\$ 293,006
2017	244,454	-	244,454
2018	71,688	-	71,688
2019	74,136	-	74,136
2020	49,936	-	49,936
Thereafter	79,560	-	79,560
	<u>\$ 792,531</u>	<u>\$ 20,249</u>	<u>\$ 812,780</u>

In April 2016, the Organization signed a ten-year lease agreement which will begin in June 2016 at a rate of approximately \$1,500 per month for three months and will increase to approximately \$5,100 per month (\$61,000 per year) through 2026. This lease is not included in the commitment table above.

Total rental expense recognized under all such agreements for the years ended December 31, 2015 and 2014 amounted to approximately \$323,000 and \$275,000, respectively, for office space and approximately \$50,000 per year for office equipment.

NOTE 10 - 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. There were no contributions by the Organization for 2014.

Management and the Board of Directors approved a 3% contribution from the Organization for the year ended December 31, 2015. These financial statements include \$111,163 of accrued liability and employee benefits expense for the year ended December 31, 2015.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 11 - 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, 2015 and 2014, expenses totaled \$76,386 and \$26,482, respectively, under the program. The Organization has accrued a liability of \$11,777 for the expected claims that had been incurred but not paid as of December 31, 2015. There was no accrued liability as of December 31, 2014 since no claims were incurred but not paid.

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2015</u>	<u>2014</u>
Annual fundraising campaign	\$ 217,209	\$ 189,355
Recruiting volunteer attorneys	7,265	6,848
Obtaining other financial resources	<u>35,956</u>	<u>16,792</u>
	<u>\$ 260,430</u>	<u>\$ 212,995</u>

NOTE 13 - 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 (Grier and SSI Representation), the Tennessee Department of Finance and Administration (VOCA and STOP Grants), the Corporation for National and Community Service (AmeriCorp) (through January 2015) 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 Grier and SSI Representation grants, 20% of the VOCA Grant, 25% of the STOP Grant, 66% for the AmeriCorp grant and 50% of the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2015 and 2014, these matches amounted to \$166,896 and \$230,178, respectively. Effective July 1, 2015, the Organization is no longer required to match funds on the STOP grants.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 14 - 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 \$46,300 in the year ended December 31, 2015 (\$43,000 in 2014). Total assets held in these funds amounted to \$873,049 and \$946,929 at December 31, 2015 and 2014, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Period</u>	<u>Award Amount</u>	<u>Accrued (Deferred) Revenue 12/31/2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2015</u>
<u>LEGAL SERVICES CORPORATION</u>								
Basic Field Grant	09.643040	(1)	N/A	\$ 3,077,716	\$ -	\$ 3,077,716	\$ 3,077,716	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	3,077,716	3,077,716	-
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>								
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:								
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G11029	1/01/14 - 12/31/14	\$ 38,906	14,768	14,768	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G14047	1/01/15 - 12/31/17	\$ 116,730	-	41,961	48,793	6,832
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					14,768	56,729	48,793	6,832
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					14,768	56,729	48,793	6,832
<u>U.S. DEPARTMENT OF JUSTICE</u>								
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:								
Victims of Crime Act (VOCA)	16.575	19099	7/01/12 - 6/30/15	\$ 509,577	12,759	91,808	79,049	-
STOP Violence Against Women	16.588	19134	7/01/12 - 6/30/15	\$ 213,525	2,861	37,703	34,842	-
Victims of Crime Act (VOCA)	16.575	26718	7/01/15 - 6/30/18	\$ 509,580	-	60,708	74,559	13,851
STOP Violence Against Women	16.588	26696	7/01/15 - 6/30/18	\$ 213,525	-	26,862	32,293	5,431
STOP Violence Against Women	16.588	26928	8/15/15 - 6/30/18	\$ 225,000	-	-	-	-
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>					15,620	217,081	220,743	19,282
PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN								
Legal Assistance for Victims Program	16.013	2008-WL-AX-0021	10/01/08 - 9/30/15	\$ 1,450,000	12,377	201,062	204,168	15,483
<u>TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN</u>					12,377	201,062	204,168	15,483
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>					27,997	418,143	424,911	34,765

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LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Period</u>	<u>Award Amount</u>	<u>Accrued (Deferred) Revenue 12/31/2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2015</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>								
Low-Income Taxpayer Clinic Grant Program	21.008	13LITC0138	1/01/14 - 12/31/14	\$ 100,000	\$ 22,595	\$ 22,595	\$ -	\$ -
Low-Income Taxpayer Clinic Grant Program	21.008	13LITC0138	1/01/15 - 12/31/15	\$ 100,000	-	87,646	100,000	12,354
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>					<u>22,595</u>	<u>110,241</u>	<u>100,000</u>	<u>12,354</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>								
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:								
Legal Assistance - Title III Priority	93.044	2015-07	7/01/14 - 6/30/15	\$ 40,800	11,394	26,090	14,696	-
Legal Assistance - Title III Priority	93.044	2016-07	7/01/15 - 6/30/16	\$ 40,800	-	19,014	26,560	7,546
<u>TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL</u>					<u>11,394</u>	<u>45,104</u>	<u>41,256</u>	<u>7,546</u>
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY								
Legal Assistance - Title III Priority	93.044	N/A	7/01/14 - 6/30/15	\$ 36,500	-	18,300	18,300	-
Legal Assistance - Title III Priority	93.044	N/A	7/01/15 - 6/30/16	\$ 36,500	-	18,200	18,200	-
<u>TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY</u>					<u>-</u>	<u>36,500</u>	<u>36,500</u>	<u>-</u>
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES								
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/14 - 6/30/15	\$ 33,000	18,829	34,368	15,539	-
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/15 - 6/30/16	\$ 33,000	-	16,577	24,306	7,729
<u>TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES</u>					<u>18,829</u>	<u>50,945</u>	<u>39,845</u>	<u>7,729</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					<u>30,223</u>	<u>132,549</u>	<u>117,601</u>	<u>15,275</u>

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LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Program Name</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Award Period</u>	<u>Award Amount</u>	<u>Accrued (Deferred) Revenue 12/31/2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2015</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>								
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:								
AmeriCorps Planning Grant	94.006	73894	8/01/14 - 1/31/15	\$ 50,000	\$ 6,782	\$ 13,156	\$ 6,374	\$ -
<u>TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>					<u>6,782</u>	<u>13,156</u>	<u>6,374</u>	<u>-</u>
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					<u>\$ 102,365</u>	<u>\$ 3,808,534</u>	<u>\$ 3,775,395</u>	<u>\$ 69,226</u>

Summary of expenditures by CFDA number

(1) Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> .	09.643040	\$ 3,077,716
	14.408	48,793
	16.013	204,168
	16.575	153,608
	16.588	67,135
	21.008	100,000
	93.044	77,756
	93.558	39,845
	94.006	<u>6,374</u>
	Total	<u>\$ 3,775,395</u>

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, 2015. 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.

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, 2015

	Basic Field Grant	Private Attorney Involvement	Total
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,649,289	\$ 428,427	\$ 3,077,716
Interest and investment income	901	-	901
Attorney fees	23,582	-	23,582
Donated services	-	1,938,621	1,938,621
Total support and revenue	<u>2,673,772</u>	<u>2,367,048</u>	<u>5,040,820</u>
PERSONNEL EXPENSES			
Lawyers	768,611	168,115	936,726
Paralegals	173,428	35,751	209,179
Support staff	582,361	75,352	657,713
Employee benefits	151,859	25,706	177,565
Payroll taxes	110,341	18,768	129,109
Total personnel expenses	<u>1,786,600</u>	<u>323,692</u>	<u>2,110,292</u>
OTHER EXPENSES			
Donated services	-	1,938,621	1,938,621
Court costs and litigation	85,636	6,597	92,233
Dues and fees	30	535	565
Equipment rental and other	59,400	-	59,400
Insurance	28,690	1,421	30,111
Occupancy	283,327	19,289	302,616
Postage	16,157	-	16,157
Printing and publications	63,088	1,221	64,309
Professional fees and contract services	76,241	71,335	147,576
Supplies	70,727	1,755	72,482
Telephone	77,533	386	77,919
Training	20,853	1,210	22,063
Travel	105,490	986	106,476
Total other expenses	<u>887,172</u>	<u>2,043,356</u>	<u>2,930,528</u>
TOTAL EXPENSES	<u>2,673,772</u>	<u>2,367,048</u>	<u>5,040,820</u>
TOTAL CHANGES IN NET ASSETS	-	-	-
NET ASSETS - BEGINNING OF YEAR	-	-	-
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2015, 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 26, 2016, except for Note 10 as of August 9, 2016.

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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2015-01 that we consider to be a material weakness.

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 are 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.

Kraft CPAs PLLC

Nashville, Tennessee
August 9, 2016

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 Cumberland
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

We have audited Legal Aid Society of Middle Tennessee and the Cumberland's (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, 2015. 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, 2015.

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.

Kraft CPAs PLLC

Nashville, Tennessee
April 26, 2016

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Section II - Financial Statement Findings

2015-01 Accrual of 401k Expenses

CRITERIA

Management is responsible for preparing financial statements that are complete and accurate, and include all liabilities of the Organization at year end.

CONDITION

As part of the 2015 budget approval process in December 2014, management proposed (and the board approved) a budget that included a 3% contribution by the Organization to employees 401(k) accounts. Prior to 2012, the Organization had contributed 5% annually, but had not contributed in recent years. The contribution payment is typically paid after year end, and the liability was not originally accrued at December 31, 2015.

CAUSE

Due to the timing of the payment and the infrequency in which it has occurred, the liability was erroneously excluded from year-end statements.

EFFECT

The effect of the adjustment was an increase in employee benefits expense and accrued liabilities in the amount of \$111,163.

RECOMMENDATION

We recommend as part of year end closing procedures that board minutes and/or detailed budget worksheets from the year are reviewed for any omission of non-routine type accruals or expenses.

MANAGEMENTS RESPONSE

The Organization's management takes responsibility in the oversight of recording the accrued liability. We did self-identify this oversight and notified the auditors. We had not made contributions in the previous two years and failed to record the accrued liability with the resumption of these contributions in 2015. In the prior years that we had made contributions, we properly recorded the accrued liability. We have set in place a system where this is recorded on a regular basis.