

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2007 AND 2006

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2008, on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Legal Aid Society of Middle Tennessee and the Cumberland taken as a whole. The accompanying schedules of expenditures of federal awards and support, revenue, expenses and changes in net assets for LSC funds are presented for purposes of additional analysis as required by OMB Circular A-133 and the Legal Services Corporation ("LSC") Audit Guide and Compliance Supplement and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kraft CPAs PLLC

Nashville, Tennessee
April 23, 2008

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 896,213	\$ 835,328
Investments - Note 4	2,173,915	2,099,864
Accounts receivable	42,138	40,890
Grants receivable	121,120	100,930
Contributions receivable - Note 6	396,234	288,260
Prepaid expenses	15,414	3,766
Property and equipment, net - Note 5	393,208	438,521
Client escrow funds	<u>16,572</u>	<u>8,738</u>
 TOTAL ASSETS	 <u>\$ 4,054,814</u>	 <u>\$ 3,816,297</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 27,158	\$ 40,963
Accrued expenses	506,425	478,097
Client escrow deposits	16,572	8,738
Deferred revenue	<u>37,336</u>	<u>4,572</u>
 TOTAL LIABILITIES	 <u>587,491</u>	 <u>532,370</u>
 COMMITMENTS AND CONTINGENCIES - Note 10		
NET ASSETS		
Unrestricted:		
Undesignated	878,305	876,279
Designated for property and equipment	<u>393,208</u>	<u>438,521</u>
 Total unrestricted	 1,271,513	 1,314,800
 Temporarily restricted - Note 6	 <u>2,195,810</u>	 <u>1,969,127</u>
 Total net assets	 <u>3,467,323</u>	 <u>3,283,927</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,054,814</u>	 <u>\$ 3,816,297</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, 2007 AND 2006

	2007				
	UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
		LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,495,215	\$ 1,832,303	\$ 4,327,518	\$ 4,327,518
Contributions and foundation grants	337,965	371,437	763,789	1,135,226	1,473,191
Investment income - Note 4	126,626	-	-	-	126,626
Miscellaneous income	37,553	-	-	-	37,553
Donated services - Note 7	-	1,138,278	-	1,138,278	1,138,278
Net assets released from restrictions	6,374,339	(4,004,930)	(2,369,409)	(6,374,339)	-
TOTAL REVENUES AND SUPPORT	6,876,483	-	226,683	226,683	7,103,166
OPERATING EXPENSES					
Program services	6,096,865	-	-	-	6,096,865
Supporting services:					
Management and general	669,078	-	-	-	669,078
Fundraising - Note 12	153,827	-	-	-	153,827
TOTAL OPERATING EXPENSES	6,919,770	-	-	-	6,919,770
INCREASE (DECREASE) IN NET ASSETS	(43,287)	-	226,683	226,683	183,396
NET ASSETS - BEGINNING OF YEAR	1,314,800	-	1,969,127	1,969,127	3,283,927
NET ASSETS - END OF YEAR	\$ 1,271,513	\$ -	\$ 2,195,810	\$ 2,195,810	\$ 3,467,323

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

2006

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,326,420	\$ 1,862,663	\$ 4,189,083	\$ 4,189,083
164,170	534,914	2,028,383	2,563,297	2,727,467
127,964	-	-	-	127,964
31,574	-	-	-	31,574
-	1,465,296	-	1,465,296	1,465,296
6,545,138	(4,326,630)	(2,218,508)	(6,545,138)	-
6,868,846	-	1,672,538	1,672,538	8,541,384
6,243,419	-	-	-	6,243,419
591,628	-	-	-	591,628
95,045	-	-	-	95,045
6,930,092	-	-	-	6,930,092
(61,246)	-	1,672,538	1,672,538	1,611,292
1,376,046	-	296,589	296,589	1,672,635
\$ 1,314,800	\$ -	\$ 1,969,127	\$ 1,969,127	\$ 3,283,927

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
			(See Note 12)	
PERSONNEL EXPENSES				
Lawyers	\$ 1,792,051	\$ 111,292	\$ 49,775	\$ 1,953,118
Paralegals	449,701	-	817	450,518
Support staff	905,672	195,457	51,748	1,152,877
Employee benefits - Note 11	590,572	38,728	9,851	639,151
Payroll taxes	230,930	22,811	7,632	261,373
TOTAL PERSONNEL EXPENSES	3,968,926	368,288	119,823	4,457,037
OTHER EXPENSES				
Donated services - Note 7	1,138,278	-	-	1,138,278
Court costs and litigation	82,446	20	-	82,466
Depreciation	59,240	-	-	59,240
Dues and fees	35,509	1,295	-	36,804
Equipment rental and maintenance - Note 10	31,007	24,885	-	55,892
Insurance	23,480	4,734	124	28,338
Occupancy - Note 10	290,474	48,702	4,546	343,722
Postage	30,637	6,126	4,227	40,990
Printing and publications	102,070	3,276	1,495	106,841
Professional fees and contract services	43,681	138,017	14,912	196,610
Supplies	70,615	39,893	6,263	116,771
Telephone	67,129	24,926	836	92,891
Training	31,601	2,527	468	34,596
Travel	121,772	6,389	1,133	129,294
TOTAL OTHER EXPENSES	2,127,939	300,790	34,004	2,462,733
TOTAL EXPENSES	\$ 6,096,865	\$ 669,078	\$ 153,827	\$ 6,919,770

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

2006

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
(See Note 12)			
\$ 1,673,104	\$ 103,293	\$ 40,614	\$ 1,817,011
423,263	-	1,373	424,636
906,699	198,639	20,054	1,125,392
530,182	39,001	5,757	574,940
219,935	22,556	4,653	247,144
<u>3,753,183</u>	<u>363,489</u>	<u>72,451</u>	<u>4,189,123</u>
1,465,296	-	-	1,465,296
114,402	22	-	114,424
57,691	-	-	57,691
32,944	3,392	500	36,836
39,717	14,563	763	55,043
36,403	6,265	11	42,679
304,557	40,787	4,386	349,730
29,251	6,118	6,935	42,304
71,919	1,912	1,328	75,159
76,477	94,671	1,151	172,299
69,236	30,488	5,999	105,723
68,567	22,797	86	91,450
22,482	349	966	23,797
101,294	6,775	469	108,538
<u>2,490,236</u>	<u>228,139</u>	<u>22,594</u>	<u>2,740,969</u>
<u>\$ 6,243,419</u>	<u>\$ 591,628</u>	<u>\$ 95,045</u>	<u>\$ 6,930,092</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 183,396	\$ 1,611,292
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,240	57,691
Unrealized gains on investments	(24,332)	(51,475)
Realized gains on investments	(8,562)	-
(Increase) decrease in:		
Accounts receivable	(1,248)	63,539
Grants receivable	(20,190)	12,270
Contributions receivable	(107,974)	(87,575)
Prepaid expenses	(11,648)	18,575
Increase (decrease) in:		
Accounts payable	(13,805)	26,784
Accrued expenses	28,328	29,386
Deferred revenue	32,764	1,848
TOTAL ADJUSTMENTS	<u>(67,427)</u>	<u>71,043</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>115,969</u>	<u>1,682,335</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(13,927)	(43,520)
Purchases of investments	(875,400)	(3,071,462)
Proceeds from sale of investments	<u>834,243</u>	<u>1,477,257</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(55,084)</u>	<u>(1,637,725)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,885	44,610
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>835,328</u>	<u>790,718</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 896,213</u>	<u>\$ 835,328</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, 2007 AND 2006

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 financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

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, 2007.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

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 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.

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 and cash equivalents consist of demand deposits.

Investments

Investments consist of certificates of deposit (regardless of original maturity), stocks, bonds and money market funds and are carried at the quoted fair market value of the securities 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 for the year.

Certificates of deposit as of December 31, 2007, have maturity dates ranging from April, 2008 through June, 2008.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

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 and as assets, decreases in liabilities, or decreases in expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At December 31, 2007 and 2006, all contributions receivable were due within one year.

As of December 31, 2007 and 2006, 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 greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets (furniture, fixtures and 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

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

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 low-income individuals, the elderly, and victims of domestic violence 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. (See Note 12.)

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.

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. Accordingly, income taxes are not provided.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated absences

Compensated absences are accrued for vacation days earned by employees that will be paid in the future. Current policy is to allow employees to carry over not more than 320 hours.

Use of estimates

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

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, various grants, accounts and contributions receivable, and investments. Contributions receivable consist of corporate contribution pledges, which are widely dispersed to mitigate credit risk, along with United Way receivables. The United Way receivables and grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization receives approximately 42% (33% in 2006) of its revenues, excluding donated services, from Legal Services Corporation. In addition, a bequest from one source in 2006 made up 22% of revenues, excluding donated services.

The Organization maintains cash balances in bank deposit accounts, certificates of deposit, and certain money market funds at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) and/or Securities Investor Protection Corporation (SIPC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

Substantially all of the Organization's investments in stocks, bonds, and money market funds are held in the name of the Organization by its custodian.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Certificates of deposit	\$ 358,846	\$ 354,767
Money market funds	437,270	645,578
Equity securities	859,073	891,435
Fixed income securities	<u>518,726</u>	<u>208,084</u>
	<u>\$2,173,915</u>	<u>\$2,099,864</u>

A summary of investment income follows for the year ended December 31:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 93,732	\$ 76,489
Realized gains on investments	8,562	-
Unrealized gains on investments	<u>24,332</u>	<u>51,475</u>
Total investment income	<u>\$ 126,626</u>	<u>\$ 127,964</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	479,583	470,572
Office furniture and computer equipment	<u>239,411</u>	<u>234,495</u>
	801,994	788,067
Less accumulated depreciation	<u>(408,786)</u>	<u>(349,546)</u>
	<u>\$ 393,208</u>	<u>\$ 438,521</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Contributions and receivables - time restriction	\$ 363,995	\$ 318,805
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,537,720	1,537,720
Other	208,572	45,339
United Way receivable - time restriction	<u>85,523</u>	<u>67,263</u>
	<u>\$ 2,195,810</u>	<u>\$1,969,127</u>

NOTE 7 - DONATED SERVICES

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

	<u>2007</u>			<u>2006</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	\$150 - \$175	5,462	\$ 929,030	\$150 - \$175	7,372	\$1,263,704
Paralegals	\$ 50	1,638	81,923	\$ 50	702	35,100
Law clerk/students	\$10 - \$14	7,082	81,090	\$10 - \$12	8,538	97,074
Other services			<u>46,235</u>			<u>69,418</u>
Total donated services			<u>\$1,138,278</u>			<u>\$1,465,296</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 8 - ALLOCATION OF MATCHING FUNDS

The Organization receives grants from the 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 and Title VII of the Older Americans Act Grants), the Tennessee Department of Human Services (SSI Representation Grant and Food Stamp Education Grant), the Tennessee Department of Finance and Administration (VOCA and STOP Grant), and the U.S. Department of Treasury (Low-Income Taxpayer Clinic Grant). The Organization is required to match 10% of the Title III and Title VII grants, 20% of the VOCA and SSI Representation Grants, 25% of the STOP Grant, and 50% of the Food Stamp Education Grant and the Low-Income Taxpayer Clinic Grant earned during the year. The new SSI Representation Grant contract with Tennessee Alliance for Legal Services, which became effective July 1, 2007, does not have a matching requirement. For the years ended December 31, 2007 and 2006, these matches amounted to \$192,336 and \$162,292, respectively.

NOTE 9 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

A donor-designated endowment fund has 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 fund and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized by the Organization in the year received. There were no such distributions in 2007 and 2006. Total assets held in this fund amounted to \$19,635 and \$16,203 at December 31, 2007 and 2006, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from \$650 to \$3,525 (excluding the Nashville office lease).

The Organization's Nashville office is leased under a ten-year non-cancelable operating lease that expires in 2013. The lease provides for annual scheduled rent increases and includes two 5-year renewal options. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the initial term of the lease. In addition, the Organization subleases a portion of this space to another not-for-profit agency at the same terms. Rent payments from the sublessee are reported on the straight-line basis as a reduction of rent expense. The excess of rent expense recognized, net of sublease income, over the amount paid and received is included in accrued expenses.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization also leases certain office equipment under non-cancelable operating leases expiring between September 2008 and October 2011.

A summary of aggregate future lease commitments for office space and various office equipment as of December 31, 2007, follows:

For the year ending December 31,	Minimum Lease Commitments Office space	Sublease Income Office Space	Net Lease Commitments Office Space	Minimum Lease Commitments Equipment	Total Net Lease Commitments
2008	\$ 235,426	\$ 30,763	\$ 204,663	\$ 36,329	\$ 240,992
2009	213,054	31,697	181,357	33,468	214,825
2010	204,166	32,644	171,522	33,468	204,990
2011	189,124	33,619	155,505	26,496	182,001
2012	180,016	34,635	145,381	-	145,381
Thereafter	60,596	11,660	48,936	-	48,936
	<u>\$ 1,082,382</u>	<u>\$ 175,018</u>	<u>\$ 907,364</u>	<u>\$ 129,761</u>	<u>\$ 1,037,125</u>

Total rental expense recognized under all such agreements for the year ended December 31, 2007, amounted to approximately \$266,000 (\$258,000 in 2006), net of sublease income, for office space, and approximately \$51,000 (\$45,000 in 2006) for office equipment.

The Organization is self-insured for unemployment compensation. Unemployment compensation cost for the years ended December 31, 2007 and 2006, amounted to \$766 and \$15,796, respectively.

NOTE 11 - PENSION PLAN

The Organization's eligible employees are covered under a defined contribution employee benefit 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. Total pension plan expense of the Organization amounted to \$151,523 in 2007 (\$141,985 in 2006).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2007 AND 2006

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2007</u>	<u>2006</u>
Annual fundraising campaign	\$ 101,915	\$ 53,855
Recruiting volunteer attorneys	36,705	28,476
Obtaining other financial resources	<u>15,207</u>	<u>12,714</u>
	<u>\$ 153,827</u>	<u>\$ 95,045</u>

NOTE 13 - NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2007. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. The Organization is currently evaluating the impact, if any, of the adoption of FIN 48 on the financial statements.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2007

<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 12/31/2006</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2007</u>
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1)	N/A	1/1/07 - 12/31/07	\$ 2,495,215	\$ 2,495,215	\$ 2,495,215	\$ -	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	2,495,215	2,495,215	-	-
<u>US DEPARTMENT OF AGRICULTURE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10.561		GR-05-16735-03	10/1/04 - 9/30/08	7,809	37,491	39,297	-	9,615
<u>TOTAL US DEPARTMENT OF AGRICULTURE</u>					7,809	37,491	39,297	-	9,615
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE:									
Community Development Block Grant	14.218		N/A	7/1/06 - 6/30/07	4,469	9,038	4,569	-	-
Community Development Block Grant	14.218		N/A	7/1/07 - 6/30/08	-	2,981	9,306	-	6,325
<u>TOTAL PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE</u>					4,469	12,019	13,875	-	6,325
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Housing Counseling Assistance Program	14.169		N/A	10/1/06 - 9/30/07	24,711	77,000	52,610	(321)	-
Housing Counseling Assistance Program	14.169		N/A	10/1/07 - 9/30/08	-	-	39,482	-	39,482
Fair Housing Initiatives Program - Private Enforcement	14.408		N/A	3/1/06 - 2/28/07	8,182	10,167	1,985	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408		N/A	3/1/07 - 2/28/08	-	1,216	6,537	-	5,321
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					32,893	88,383	100,614	(321)	44,803
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					37,362	100,402	114,489	(321)	51,128
<u>US DEPARTMENT OF JUSTICE</u>									
PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE:									
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		N/A	10/1/05 - 9/30/07	6,596	33,279	26,683	-	-
<u>TOTAL PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE</u>					6,596	33,279	26,683	-	-

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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, 2007

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2006	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2007
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
STOP Violence Against Women (Nashville)	16.588	Z-07-033038-00	7/1/06 - 6/30/09	\$ 67,308	\$ 1,532	\$ 21,233	\$ 21,740	\$ -	\$ 2,039
STOP Violence Against Women (Tullahoma, Columbia and Murfreesboro)	16.588	Z-07-033039-00	7/1/06 - 6/30/09	\$ 146,217	4,001	49,137	49,849	-	4,713
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-07-033097-00	7/1/06 - 6/30/09	\$ 177,801	4,501	57,367	57,522	-	4,656
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-07-033113-00	7/1/06 - 6/30/09	\$ 174,309	4,591	56,801	56,862	-	4,652
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-07-033100-00	7/1/06 - 6/30/09	\$ 157,467	4,444	46,439	44,784	-	2,789
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION					19,069	230,977	230,757	-	18,849
PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP:									
Military CCR Demonstration Project	16.526	N/A	3/16/05 - 6/30/06	\$ 40,000	13,100	13,100	-	-	-
Military CCR Demonstration Project	16.526	N/A	2/1/07 - 9/30/08	\$ 114,235	-	36,324	41,298	-	4,974
TOTAL PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP					13,100	49,424	41,298	-	4,974
TOTAL US DEPARTMENT OF JUSTICE					38,765	313,680	298,738	-	23,823
US DEPARTMENT OF THE TREASURY									
Low-Income Taxpayer Clinic Grant Program	21.008	2006126	1/1/06 - 12/31/06	\$ 100,000	1,212	1,212	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	2007130	1/1/07 - 12/31/07	\$ 97,250	-	76,729	97,250	-	20,521
TOTAL US DEPARTMENT OF THE TREASURY					1,212	77,941	97,250	-	20,521
US DEPARTMENT OF HEALTH AND HUMAN SERVICES									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2006-07	7/1/06 - 6/30/07	\$ 40,800	9,007	26,604	17,597	-	-
Legal Assistance - Title III Priority	93.044	2006-07	7/1/07 - 6/30/08	\$ 40,800	-	14,368	21,300	-	6,932
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					9,007	40,972	38,897	-	6,932

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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, 2007

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2006	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2007
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY:									
Legal Assistance - Title III Priority	93.044	N/A	7/1/06 - 6/30/07	\$ 36,500	\$ (2,216)	\$ 17,400	\$ 19,616	\$ -	\$ -
Legal Assistance - Title III Priority	93.044	N/A	7/1/07 - 6/30/08	\$ 36,500	-	21,300	19,640	-	(1,660)
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/05 - 6/30/06	\$ 6,300	(1,776)	-	1,776	-	-
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/06 - 6/30/07	\$ 8,100	1,871	7,280	5,424	-	15
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/07 - 6/30/08	\$ 6,100	-	1,600	1,805	-	205
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY					(2,121)	47,580	48,261	-	(1,440)
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	(2)	7/1/05 - 6/30/07	\$ 100,000	6,679	14,495	7,816	-	-
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	(2)	7/1/07 - 6/30/08	\$ 131,200	-	11,117	19,998	-	8,881
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES					13,565	114,164	114,972	-	14,373
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 98,713	\$ 3,138,893	\$ 3,159,961	\$ (321)	\$ 119,460

Summary of expenditures by CFDA number

09.643040	\$ 2,495,215
10.561	39,297
14.169	92,092
14.218	13,875
14.408	8,522
16.526	41,298
16.575	159,168
16.588	71,589
16.590	26,683
21.008	97,250
93.041	9,005
93.044	78,153
93.558	27,814

Total \$ 3,159,961

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the grant activity of Legal Aid Society of Middle Tennessee and the Cumberlands, and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. This schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Legal Services Corporation Audit Guide.

- (1) Considered a major program under OMB Circular A-133.
(2) Expenditures include federal and state awards, allocation not available.

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, 2007

	<u>Basic Field Grant</u>	<u>Private Attorney Involvement</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,261,502	\$ 233,713	\$ 2,495,215
Contributions and foundation grants	195,077	176,360	371,437
Donated services	-	1,138,278	1,138,278
Total support and revenue	<u>2,456,579</u>	<u>1,548,351</u>	<u>4,004,930</u>
PERSONNEL EXPENSES			
Lawyers	581,573	111,533	693,106
Paralegals	110,726	34,622	145,348
Support staff	473,606	117,158	590,764
Employee benefits	446,915	42,077	488,992
Payroll taxes	81,280	19,707	100,987
Total personnel expenses	<u>1,694,100</u>	<u>325,097</u>	<u>2,019,197</u>
OTHER EXPENSES			
Donated services	-	1,138,278	1,138,278
Court costs and litigation	48,216	18,005	66,221
Dues and fees	228	918	1,146
Equipment rental and maintenance	42,040	1,600	43,640
Insurance	22,515	1,519	24,034
Occupancy	213,275	12,800	226,075
Postage	23,953	3,100	27,053
Printing and publications	71,771	3,793	75,564
Professional fees and contract services	101,640	32,499	134,139
Supplies	65,519	6,202	71,721
Telephone	68,386	2,112	70,498
Training	21,014	894	21,908
Travel	83,922	1,534	85,456
Total other expenses	<u>762,479</u>	<u>1,223,254</u>	<u>1,985,733</u>
TOTAL EXPENSES	<u>2,456,579</u>	<u>1,548,351</u>	<u>4,004,930</u>
SUPPORT AND REVENUE OVER EXPENSES	-	-	-
OTHER CHANGES IN NET ASSETS			
Acquisition of equipment	-	-	-
TOTAL CHANGES IN NET ASSETS	-	-	-
NET ASSETS - BEGINNING OF YEAR	-	-	-
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>