

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

AND

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2004 AND 2003

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION

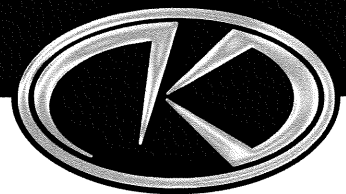
AND

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2004 AND 2003

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KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2004 and 2003, 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, 2004 and 2003, 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 March 29, 2005, 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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.

Y. J. CPAs PLLC

Nashville, Tennessee
March 29, 2005

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 506,618	\$ 573,433
Investments	448,425	446,013
Accounts receivable	54,110	38,590
Grants receivable	398,636	267,814
Contributions receivable - Note 5	280,981	236,860
Prepaid expenses	31,665	22,255
Property and equipment, net - Note 4	476,454	527,954
Client escrow funds	<u>10,147</u>	<u>3,289</u>
 TOTAL ASSETS	 <u>\$ 2,207,036</u>	 <u>\$ 2,116,208</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 45,592	\$ 67,565
Accrued expenses	427,075	392,715
Client escrow deposits	10,147	3,289
Deferred revenue	<u>8,421</u>	<u>6,314</u>
 TOTAL LIABILITIES	 <u>491,235</u>	 <u>469,883</u>
 COMMITMENTS AND CONTINGENCIES - Note 9		
NET ASSETS		
Unrestricted:		
Undesignated	820,339	803,149
Designated for property and equipment	<u>476,454</u>	<u>527,954</u>
 Total unrestricted	 1,296,793	 1,331,103
 Temporarily restricted - Note 5	 <u>419,008</u>	 <u>315,222</u>
 Total net assets	 <u>1,715,801</u>	 <u>1,646,325</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,207,036</u>	 <u>\$ 2,116,208</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, 2004 AND 2003

	2004				
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>			<u>TOTAL</u>
		<u>LSC</u>	<u>NON-LSC</u>	<u>TOTAL</u>	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,380,399	\$ 2,058,663	\$ 4,439,062	\$ 4,439,062
Contributions and foundation grants	38,678	482,038	419,008	901,046	939,724
Interest income	10,348	-	-	-	10,348
Miscellaneous income	17,909	-	-	-	17,909
Donated services - Note 6	-	1,229,552	-	1,229,552	1,229,552
Loss on disposal of property and equipment	-	-	-	-	-
Net assets released from restrictions	<u>6,465,874</u>	<u>(4,091,989)</u>	<u>(2,373,885)</u>	<u>(6,465,874)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>6,532,809</u>	<u>-</u>	<u>103,786</u>	<u>103,786</u>	<u>6,636,595</u>
OPERATING EXPENSES					
Program services	5,867,314	-	-	-	5,867,314
Supporting services:					
Management and general	601,891	-	-	-	601,891
Fundraising	<u>97,914</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,914</u>
TOTAL OPERATING EXPENSES	<u>6,567,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,567,119</u>
INCREASE (DECREASE) IN NET ASSETS	(34,310)	-	103,786	103,786	69,476
NET ASSETS - BEGINNING OF YEAR	<u>1,331,103</u>	<u>-</u>	<u>315,222</u>	<u>315,222</u>	<u>1,646,325</u>
NET ASSETS - END OF YEAR	<u>\$ 1,296,793</u>	<u>\$ -</u>	<u>\$ 419,008</u>	<u>\$ 419,008</u>	<u>\$ 1,715,801</u>

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

2003

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,363,075	\$ 1,940,403	\$ 4,303,478	\$ 4,303,478
361,076	416,445	315,222	731,667	1,092,743
13,233	-	-	-	13,233
5,969	-	-	-	5,969
-	1,399,710	-	1,399,710	1,399,710
(67,066)	-	-	-	(67,066)
6,400,405	(4,235,057)	(2,165,348)	(6,400,405)	-
6,713,617	(55,827)	90,277	34,450	6,748,067
6,009,056	-	-	-	6,009,056
674,645	-	-	-	674,645
118,950	-	-	-	118,950
6,802,651	-	-	-	6,802,651
(89,034)	(55,827)	90,277	34,450	(54,584)
1,420,137	55,827	224,945	280,772	1,700,909
\$ 1,331,103	\$ -	\$ 315,222	\$ 315,222	\$ 1,646,325

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 1,582,791	\$ 111,996	\$ 33,433	\$ 1,728,220
Paralegals	390,547	1,973	6,477	398,997
Support staff	967,248	211,389	21,379	1,200,016
Employee benefits - Note 10	473,372	41,704	8,032	523,108
Payroll taxes	214,965	24,294	4,609	243,868
TOTAL PERSONNEL EXPENSES	<u>3,628,923</u>	<u>391,356</u>	<u>73,930</u>	<u>4,094,209</u>
OTHER EXPENSES				
Donated services - Note 6	1,229,552	-	-	1,229,552
Court costs and litigation	55,809	-	-	55,809
Depreciation	57,135	-	-	57,135
Dues and fees	27,107	3,145	255	30,507
Equipment rental and maintenance - Note 9	53,044	8,497	478	62,019
Insurance	36,813	3,588	295	40,696
Occupancy - Note 9	235,957	71,879	250	308,086
Postage	39,321	5,156	4,878	49,355
Printing and publications	92,958	4,202	10,624	107,784
Professional fees and contract services	102,942	28,899	1,405	133,246
Supplies	95,434	50,058	4,122	149,614
Telephone	80,522	22,185	25	102,732
Training	29,986	6,231	1,368	37,585
Travel	101,811	6,695	284	108,790
TOTAL OTHER EXPENSES	<u>2,238,391</u>	<u>210,535</u>	<u>23,984</u>	<u>2,472,910</u>
TOTAL EXPENSES	<u>\$ 5,867,314</u>	<u>\$ 601,891</u>	<u>\$ 97,914</u>	<u>\$ 6,567,119</u>

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

2003

PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
\$ 1,437,783	\$ 216,451	\$ 32,462	\$ 1,686,696
350,457	-	6,319	356,776
1,009,907	205,671	36,566	1,252,144
469,826	56,665	7,512	534,003
204,437	32,251	5,236	241,924
<u>3,472,410</u>	<u>511,038</u>	<u>88,095</u>	<u>4,071,543</u>
1,399,710	-	-	1,399,710
59,457	-	-	59,457
87,625	-	-	87,625
38,783	2,659	255	41,697
55,307	17,060	1,221	73,588
33,108	1,759	-	34,867
239,503	22,981	952	263,436
43,796	9,333	5,878	59,007
78,049	4,585	7,856	90,490
137,756	27,885	494	166,135
117,469	57,592	12,443	187,504
104,330	14,985	1,558	120,873
44,504	810	144	45,458
97,249	3,958	54	101,261
<u>2,536,646</u>	<u>163,607</u>	<u>30,855</u>	<u>2,731,108</u>
<u>\$ 6,009,056</u>	<u>\$ 674,645</u>	<u>\$ 118,950</u>	<u>\$ 6,802,651</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 69,476	\$ (54,584)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	57,135	87,625
Loss on disposal of property and equipment	-	67,066
(Increase) decrease in:		
Accounts receivable	(15,520)	(35,402)
Grants receivable	(130,822)	(63,073)
Contributions receivable	(44,121)	19,577
Prepaid expenses	(9,410)	(7,677)
Increase (decrease) in:		
Accounts payable	(21,973)	20,477
Accrued expenses	34,360	22,670
Deferred revenue	2,107	3,203
TOTAL ADJUSTMENTS	<u>(128,244)</u>	<u>114,466</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(58,768)</u>	<u>59,882</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,635)	(341,278)
Maturities of certificates of deposit	446,013	442,305
Purchases of certificates of deposit	<u>(448,425)</u>	<u>(446,013)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,047)</u>	<u>(344,986)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(66,815)	(285,104)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>573,433</u>	<u>858,537</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 506,618</u>	<u>\$ 573,433</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, 2004 AND 2003

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 provide legal assistance.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements present the Organization's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (Continued)

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 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 and money market funds.

Investments

Investments in certificates of deposit are classified as investments, regardless of original maturity, and are stated at cost, which approximates fair value. Certificates of deposit as of December 31, 2004, have maturity dates ranging from April, 2005 through June, 2005.

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 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, 2004 and 2003, all contributions receivable were due within one year.

As of December 31, 2004 and 2003, 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at acquisition cost, the carrying basis for assets transferred in from merged organizations (see Note 4), or at estimated fair market value at date of gift, if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (furniture, fixtures and equipment - 3 to 15 years; buildings and improvements - 10 to 39 years). The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

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.

Program and supporting services

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

Program services - includes activities carried out to fulfill the Organization's mission to provide civil legal services for the indigent of 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The costs associated with the annual fundraising campaign were \$49,424 in 2004 (\$71,391 in 2003), and the costs related to obtaining other financial resources were \$22,639 in 2004 (\$19,368 in 2003). Costs related to recruiting volunteer attorneys are also reported as fundraising activities and amounted to \$25,851 in 2004 (\$27,851 in 2003).

Allocation of functional expenses

Costs of providing the Organization's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general.

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.

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain prior year amounts have been reclassified to be consistent with the current year's presentation.

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. 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 44% (45% in 2003) of its total revenues, excluding donated services, from Legal Services Corporation.

The Organization maintains cash and investment balances in bank deposit accounts at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2004</u>	<u>2003</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	434,825	434,825
Office furniture and computer equipment	<u>197,587</u>	<u>191,952</u>
	715,412	709,777
Less accumulated depreciation	<u>(238,958)</u>	<u>(181,823)</u>
	<u>\$ 476,454</u>	<u>\$ 527,954</u>

During 2003, the Organization took a complete physical inventory of all property transferred in connection with the merger, during 2002, of Rural Legal Services of Tennessee, Inc and Legal Services of South Central Tennessee, Inc. and scrapped approximately \$566,000 in furniture and equipment (approximately \$499,000 fully depreciated). The \$67,000 net book value of these items was charged to operations in 2003.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2004</u>	<u>2003</u>
Contributions and receivables - time restriction	\$ 283,987	\$ 242,750
Contributions for future salaries - purpose restriction	70,477	-
United Way receivable - time restriction	<u>64,544</u>	<u>72,472</u>
	<u>\$ 419,008</u>	<u>\$ 315,222</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 6 - DONATED SERVICES

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

	<u>2004</u>			<u>2003</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	6,336	\$1,089,259	\$150 - \$175	7,634	\$1,306,075
Paralegals	\$ 50	675	33,750	\$ 50	504	25,200
Law clerk/students	\$10 - \$12	6,121	69,004	\$ 12	1,582	18,984
Other services			<u>37,539</u>			<u>49,451</u>
Total donated services			<u>\$1,229,552</u>			<u>\$1,399,710</u>

NOTE 7 - 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) and the Tennessee Department of Finance and Administration (VOCA and STOP Grant). The Organization is required to match 10% of the Title III and Title VII grants, 20% of the VOCA grant, and 25% of the STOP grant (beginning July 2003) earned during the year. For the years ended December 31, 2004 and 2003, these matches amounted to \$111,098 and \$66,832, respectively.

NOTE 8 - 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 2004 and 2003. Total assets held in this fund amounted to \$9,933 and \$8,950 at December 31, 2004 and 2003, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 9 - 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 \$3,250.

In May 2003, the Organization relocated its Nashville office and entered into a ten-year non-cancelable operating lease. 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 office 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.

The Organization also leases certain office equipment under non-cancelable operating leases expiring between March 2006 and March 2009.

As of December 31, 2004, aggregate future lease commitments for office space and various office equipment total the following:

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
2005	\$ 186,987	\$ 28,153	\$ 158,834	\$ 30,606	\$ 189,440
2006	162,211	28,977	133,234	29,355	162,589
2007	155,269	29,856	125,413	28,938	154,351
2008	159,926	30,763	129,163	9,984	139,147
2009	164,754	31,697	133,057	1,781	134,838
Thereafter	<u>585,027</u>	<u>112,558</u>	<u>472,469</u>	<u>-</u>	<u>472,469</u>
	<u>\$ 1,414,174</u>	<u>\$ 262,004</u>	<u>\$ 1,152,170</u>	<u>\$ 100,664</u>	<u>\$ 1,252,834</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Total expense incurred under all such agreements for the year ended December 31, 2004, amounted to \$242,516 (\$197,846 in 2003), net of sublease income, for office space, and \$47,083 (\$49,801 in 2003) for office equipment.

The Organization is self-insured for unemployment compensation. Unemployment compensation cost for the years ended December 31, 2004 and 2003, amounted to \$6,157 and \$2,702, respectively.

NOTE 10 - PENSION PLAN

The Organization's employees are covered under a defined contribution employee benefit plan. At the discretion of the Board, payments are made by the Organization on behalf of all eligible employees based on their compensation. Total pension plan expense of the Organization amounted to \$141,800 in 2004 (\$134,071 in 2003).

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2003	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2004
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	N/A	1/1/04 - 12/31/04	\$ 2,325,749	(1) \$ -	\$ 2,369,705	\$ 2,369,705	\$ -	\$ -
Technology Initiative Grant	09.643040	01010	10/1/01 - 9/30/02	\$ 50,000	(2) -	2,000	2,000	-	-
Technology Initiative Grant	09.643040	01023	10/1/01 - 1/31/03	\$ 44,694	(2) -	8,694	8,694	-	-
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	<u>2,380,399</u>	<u>2,380,399</u>	-	-
<u>US DEPARTMENT OF AGRICULTURE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10.561	GR-03-14988-01	10/1/03 - 9/30/04	\$ 157,500	(3) 4,800	38,880	34,232	-	152
Food Stamp Education Program	10.561	GR-05-16735-00	10/1/04 - 9/30/05	\$ 44,845	-	-	6,545	-	6,545
<u>TOTAL US DEPARTMENT OF AGRICULTURE</u>					4,800	<u>38,880</u>	<u>40,777</u>	-	<u>6,697</u>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH CITY OF CLARKSVILLE:									
Community Development Block Grant	14.218	N/A	7/1/02 - 6/30/03	\$ 15,500	5	-	-	-	5
Community Development Block Grant	14.218	N/A	7/1/03 - 6/30/04	\$ 15,500	-	15,172	15,172	-	-
Community Development Block Grant	14.218	N/A	7/1/04 - 6/30/05	\$ 15,500	-	-	9,833	-	9,833
Fair Housing Initiatives Program (CDBG)	14.408	N/A	7/1/03 - 6/30/04	\$ 15,000	-	15,000	15,000	-	-
Fair Housing Initiatives Program (CDBG)	14.408	N/A	7/1/04 - 6/30/05	\$ 13,000	-	-	11,266	-	11,266
<u>TOTAL PASSED THROUGH CITY OF CLARKSVILLE</u>					5	<u>30,172</u>	<u>51,271</u>	-	<u>21,104</u>
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Housing Counseling Assistance Program	14.169	N/A	10/1/02 - 9/30/03	\$ 40,000	3,163	-	-	(3,163)	-
Housing Counseling Assistance Program	14.169	N/A	10/1/03 - 9/30/04	\$ 42,500	12,494	53,920	41,691	(265)	-
Housing Counseling Assistance Program	14.169	N/A	10/1/04 - 9/30/05	\$ 75,000	-	-	18,811	-	18,811
Housing Counseling Assistance Program (Predatory Lending)	14.169	N/A	10/1/03 - 9/30/04	\$ 13,000	-	3,029	8,124	-	5,095
Fair Housing Initiatives Program - Private Enforcement	14.408	N/A	4/1/02 - 3/31/03	\$ 34,994	13,892	16,287	-	2,395	-
Fair Housing Initiatives Program - Private Enforcement	14.408	N/A	4/1/03 - 3/31/04	\$ 38,148	8,388	9,750	2,282	(920)	-
Fair Housing Initiatives Program - Private Enforcement	14.408	N/A	3/1/04 - 2/28/05	\$ 29,834	-	-	5,161	-	5,161
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					37,937	<u>82,986</u>	<u>76,069</u>	<u>(1,953)</u>	<u>29,067</u>
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					37,942	<u>113,158</u>	<u>127,340</u>	<u>(1,953)</u>	<u>50,171</u>

(continued on next page)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2003	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2004
<u>US DEPARTMENT OF JUSTICE</u>									
Legal Assistance for Victims Grant Program	16.524	2002-WL-BX-4045	10/1/02 - 9/30/05	\$ 297,420	\$ 157,657	\$ -	\$ 139,763	\$ -	\$ 297,420
TOTAL DIRECT DEPARTMENT OF JUSTICE					157,657	-	139,763	-	297,420
<u>PASSED THROUGH THE COUNTY OF MONTGOMERY</u>									
FY 2003 Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	N/A	9/1/03 - 8/31/05	\$ 150,573	-	66,917	83,458	-	16,541
TOTAL PASSED THROUGH THE COUNTY OF MONTGOMERY					-	66,917	83,458	-	16,541
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:</u>									
STOP Violence Against Women (Nashville)	16.588	Z-00-001406-01	7/1/03 - 6/30/06	\$ 79,191	1,893	25,766	24,609	-	736
STOP Violence Against Women (Tullahoma and Columbia)	16.588	Z-00-001402-01	7/1/03 - 6/30/06	\$ 172,020	3,945	53,751	54,054	-	4,248
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-00-099363-01	7/1/03 - 6/30/06	\$ 172,620	4,852	53,513	53,010	-	4,349
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-00-099289-01	7/1/03 - 6/30/06	\$ 169,233	4,958	56,356	55,156	-	3,758
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-00-099290-01	7/1/03 - 6/30/06	\$ 152,880	2,745	42,532	44,217	-	4,430
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION					18,393	231,918	231,046	-	17,521
<u>TOTAL US DEPARTMENT OF JUSTICE</u>					176,050	298,835	454,267	-	331,482
<u>US DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	33012702	1/1/03 - 12/31/03	\$ 85,000	24,136	24,136	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	2004052	1/1/04 - 12/31/04	\$ 85,000	-	81,511	85,000	-	3,489
TOTAL US DEPARTMENT OF THE TREASURY					24,136	105,647	85,000	-	3,489
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
<u>PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:</u>									
Legal Assistance - Title III Priority	93.044	2004-07	7/1/03 - 6/30/04	\$ 40,800	14,748	26,087	11,369	-	30
Legal Assistance - Title III Priority	93.044	2005-07	7/1/04 - 6/30/05	\$ 40,800	-	21,582	27,393	-	5,811
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					14,748	47,669	38,762	-	5,841

(continued on next page)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2003	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2004
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY									
Legal Assistance - Title III Priority	93.044	N/A	7/1/03 - 6/30/04	\$ 36,500	\$ 4,927	\$ 18,494	\$ 13,567	\$ -	\$ -
Legal Assistance - Title III Priority	93.044	N/A	7/1/04 - 6/30/05	\$ 36,500	-	22,400	19,251	-	(3,149)
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/03 - 6/30/04	\$ 15,300	-	15,308	14,300	-	(1,008)
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/04 - 6/30/05	\$ 6,300	-	2,500	3,456	-	956
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT					4,927	58,702	50,574	-	(3,201)
AREA AGENCY ON AGING AND DISABILITY									
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES					19,675	106,371	89,336	-	2,640
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE									
PASSED THROUGH EQUAL JUSTICE WORKS:									
AmeriCorps	94.006	N/A	8/1/00 - 7/31/03	\$ 68,800	5,211	5,211	-	-	-
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE					5,211	5,211	-	-	-
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 267,814	\$ 3,048,501	\$ 3,177,119	\$ (1,953)	\$ 394,479

Summary of expenditures by CFDA number

09.643040	\$ 2,380,399
10.561	40,777
14.169	68,626
14.218	25,005
14.408	33,709
16.524	139,763
16.575	152,383
16.588	78,663
16.590	83,458
21.008	85,000
93.041	17,756
93.044	71,580
94.006	-
Total	\$ 3,177,119

- (1) Considered a major program under OMB Circular A-133.
- (2) Additional awards provided by LSC during the year.
- (3) Receipts are shown net of matching amount.

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, *Audit of States, Local Governments, and Non-Profit Organizations* and the Legal Services Corporation Audit Guide.

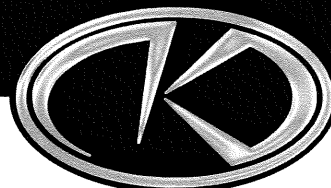
LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

SCHEDULE OF SUPPORT, REVENUE, EXPENSES AND
CHANGES IN NET ASSETS FOR LSC FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Basic Field Grant	Private Attorney Involvement	LSC Technology Grant	Total
SUPPORT AND REVENUE				
Grants and contracts - LSC	\$ 2,121,172	\$ 248,533	\$ 10,694	\$ 2,380,399
Contributions and foundation grants	342,357	139,681	-	482,038
Donated services	-	1,229,552	-	1,229,552
Total support and revenue	<u>2,463,529</u>	<u>1,617,766</u>	<u>10,694</u>	<u>4,091,989</u>
PERSONNEL EXPENSES				
Lawyers	635,660	137,337	-	772,997
Paralegals	94,501	50,374	-	144,875
Support staff	549,335	89,193	-	638,528
Employee benefits	357,039	21,786	-	378,825
Payroll taxes	90,470	20,471	-	110,941
Total personnel expenses	<u>1,727,005</u>	<u>319,161</u>	<u>-</u>	<u>2,046,166</u>
OTHER EXPENSES				
Donated services	-	1,229,552	-	1,229,552
Court costs and litigation	30,209	19,406	-	49,615
Dues and fees	977	845	-	1,822
Equipment rental and maintenance	41,276	1,628	-	42,904
Insurance	32,816	899	-	33,715
Occupancy	182,358	11,116	-	193,474
Postage	30,352	2,357	-	32,709
Printing and publications	68,097	3,680	-	71,777
Professional fees and contract services	84,825	20,011	2,000	106,836
Supplies	95,749	2,540	8,694	106,983
Telephone	79,356	2,782	-	82,138
Training	17,459	803	-	18,262
Travel	67,415	2,986	-	70,401
Total other expenses	<u>730,889</u>	<u>1,298,605</u>	<u>10,694</u>	<u>2,040,188</u>
TOTAL EXPENSES	<u>2,457,894</u>	<u>1,617,766</u>	<u>10,694</u>	<u>4,086,354</u>
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	5,635	-	-	5,635
OTHER CHANGES IN NET ASSETS				
Acquisition of equipment	<u>(5,635)</u>	<u>-</u>	<u>-</u>	<u>(5,635)</u>
TOTAL CHANGES IN NET ASSETS	-	-	-	-
NET ASSETS - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER REPORTS



KraftCPAs
PLLC

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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 the financial statements of Legal Aid Society of Middle Tennessee and the Cumberland as of and for the year ended December 31, 2004, and have issued our report thereon dated March 29, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Aid Society of Middle Tennessee and the Cumberland's 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*.

However, we noted certain immaterial instances of noncompliance and other matters involving the internal control over financial reporting that we have reported to the management of Legal Aid Society of Middle Tennessee and the Cumberland in a separate letter dated March 29, 2005.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KraftCPAs PLLC

Nashville, Tennessee
March 29, 2005



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE LEGAL SERVICES
CORPORATION AUDIT GUIDE AND COMPLIANCE SUPPLEMENT

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

Compliance

We have audited the compliance of Legal Aid Society of Middle Tennessee and the Cumberland with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Legal Services Corporation (LSC) Audit Guide and Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. Legal Aid Society of Middle Tennessee and the Cumberland's major federal program is identified in the Summary of Audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Legal Aid Society of Middle Tennessee and the Cumberland's management. Our responsibility is to express an opinion on Legal Aid Society of Middle Tennessee and the Cumberland's compliance based on our audit.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the LSC Audit Guide and Compliance Supplement. Those standards, OMB Circular A-133, and the LSC Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Legal Aid Society of Middle Tennessee and the Cumberland'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. Our audit does not provide a legal determination of Legal Aid Society of Middle Tennessee and the Cumberland's compliance with those requirements.

In our opinion, Legal Aid Society of Middle Tennessee and the Cumberlandds complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Legal Aid Society of Middle Tennessee and the Cumberlandds is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Legal Aid Society of Middle Tennessee and the Cumberlandds' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the LSC Audit Guide.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Y. H. CPAs PLLC

Nashville, Tennessee
March 29, 2005

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2004

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

09.643040

Legal Services Corporation Basic Field Grant

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

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

Section II - Financial Statement Findings

PRIOR YEAR

None noted in the prior year.

CURRENT YEAR

None noted in the current year.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2004

Section III - Federal Award Findings and Questioned Costs

PRIOR YEAR

None noted in the prior year

CURRENT YEAR

None noted in current year.