

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2005 AND 2004

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u> .....	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position .....	3
Statements of Activities.....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7 - 15
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards .....	16 - 18
Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds .....	19
 <u>OTHER REPORTS</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	20
Independent Auditors' Report 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 .....	21 - 22
Schedule of Findings and Questioned Costs .....	23 - 25

## 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, 2005 and 2004, 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, 2005 and 2004, 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 28, 2006, 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 Cumberlands 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.

*Graft CPAs PLLC*

Nashville, Tennessee  
March 28, 2006

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 894,706	\$ 607,555
Investments	350,196	347,488
Accounts receivable	104,429	54,110
Grants receivable	113,200	398,636
Contributions receivable - Note 5	200,685	280,981
Prepaid expenses	22,341	31,665
Property and equipment, net - Note 4	452,692	476,454
Client escrow funds	<u>14,038</u>	<u>10,147</u>
 TOTAL ASSETS	 <u>\$ 2,152,287</u>	 <u>\$ 2,207,036</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 14,179	\$ 45,592
Accrued expenses	448,711	427,075
Client escrow deposits	14,038	10,147
Deferred revenue	<u>2,724</u>	<u>8,421</u>
 TOTAL LIABILITIES	 <u>479,652</u>	 <u>491,235</u>
 COMMITMENTS AND CONTINGENCIES - Note 9		
 NET ASSETS		
Unrestricted:		
Undesignated	923,354	820,339
Designated for property and equipment	<u>452,692</u>	<u>476,454</u>
 Total unrestricted	 1,376,046	 1,296,793
 Temporarily restricted - Note 5	 <u>296,589</u>	 <u>419,008</u>
 Total net assets	 <u>1,672,635</u>	 <u>1,715,801</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,152,287</u>	 <u>\$ 2,207,036</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, 2005 AND 2004

		2005			
		UNRESTRICTED	TEMPORARILY RESTRICTED		TOTAL
			LSC	NON-LSC	TOTAL
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,356,518	\$ 1,913,154	\$ 4,269,672	\$ 4,269,672
Contributions and foundation grants	112,990	423,459	324,507	747,966	860,956
Interest income	19,046	-	-	-	19,046
Miscellaneous income	31,418	-	-	-	31,418
Donated services - Note 6	-	1,123,164	-	1,123,164	1,123,164
Net assets released from restrictions	6,263,221	(3,903,141)	(2,360,080)	(6,263,221)	-
TOTAL REVENUES AND SUPPORT	6,426,675	-	(122,419)	(122,419)	6,304,256
OPERATING EXPENSES					
Program services	5,678,235	-	-	-	5,678,235
Supporting services:					
Management and general	574,362	-	-	-	574,362
Fundraising - Note 11	94,825	-	-	-	94,825
TOTAL OPERATING EXPENSES	6,347,422	-	-	-	6,347,422
INCREASE (DECREASE) IN NET ASSETS	79,253	-	(122,419)	(122,419)	(43,166)
NET ASSETS - BEGINNING OF YEAR	1,296,793	-	419,008	419,008	1,715,801
NET ASSETS - END OF YEAR	\$ 1,376,046	\$ -	\$ 296,589	\$ 296,589	\$ 1,672,635

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

2004

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,380,399	\$ 2,058,663	\$ 4,439,062	\$ 4,439,062
38,678	482,038	419,008	901,046	939,724
10,348	-	-	-	10,348
17,909	-	-	-	17,909
-	1,229,552	-	1,229,552	1,229,552
6,465,874	(4,091,989)	(2,373,885)	(6,465,874)	-
6,532,809	-	103,786	103,786	6,636,595
5,867,314	-	-	-	5,867,314
601,891	-	-	-	601,891
97,914	-	-	-	97,914
6,567,119	-	-	-	6,567,119
(34,310)	-	103,786	103,786	69,476
1,331,103	-	315,222	315,222	1,646,325
\$ 1,296,793	\$ -	\$ 419,008	\$ 419,008	\$ 1,715,801

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
	(See Note 11)			
<b>PERSONNEL EXPENSES</b>				
Lawyers	\$ 1,593,051	\$ 91,686	\$ 36,882	\$ 1,721,619
Paralegals	410,176	-	6,384	416,560
Support staff	923,782	224,975	17,650	1,166,407
Employee benefits - Note 10	501,764	39,606	5,178	546,548
Payroll taxes	214,275	23,560	4,588	242,423
<b>TOTAL PERSONNEL EXPENSES</b>	<u>3,643,048</u>	<u>379,827</u>	<u>70,682</u>	<u>4,093,557</u>
<b>OTHER EXPENSES</b>				
Donated services - Note 6	1,123,164	-	-	1,123,164
Court costs and litigation	57,090	-	-	57,090
Depreciation	52,897	-	-	52,897
Dues and fees	17,809	2,406	275	20,490
Equipment rental and maintenance - Note 9	47,870	12,188	196	60,254
Insurance	37,734	4,775	123	42,632
Occupancy - Note 9	276,475	37,292	4,264	318,031
Postage	31,777	2,463	3,750	37,990
Printing and publications	56,611	3,207	4,969	64,787
Professional fees and contract services	73,119	69,722	2,798	145,639
Supplies	60,183	27,820	7,696	95,699
Telephone	82,343	23,383	72	105,798
Training	37,397	6,553	-	43,950
Travel	80,718	4,726	-	85,444
<b>TOTAL OTHER EXPENSES</b>	<u>2,035,187</u>	<u>194,535</u>	<u>24,143</u>	<u>2,253,865</u>
<b>TOTAL EXPENSES</b>	<u>\$ 5,678,235</u>	<u>\$ 574,362</u>	<u>\$ 94,825</u>	<u>\$ 6,347,422</u>

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

2004

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
(See Note 11)			
\$ 1,582,791	\$ 111,996	\$ 33,433	\$ 1,728,220
390,547	1,973	6,477	398,997
967,248	211,389	21,379	1,200,016
473,372	41,704	8,032	523,108
214,965	24,294	4,609	243,868
<u>3,628,923</u>	<u>391,356</u>	<u>73,930</u>	<u>4,094,209</u>
1,229,552	-	-	1,229,552
55,809	-	-	55,809
57,135	-	-	57,135
27,107	3,145	255	30,507
53,044	8,497	478	62,019
36,813	3,588	295	40,696
235,957	71,879	250	308,086
39,321	5,156	4,878	49,355
92,958	4,202	10,624	107,784
102,942	28,899	1,405	133,246
95,434	50,058	4,122	149,614
80,522	22,185	25	102,732
29,986	6,231	1,368	37,585
101,811	6,695	284	108,790
<u>2,238,391</u>	<u>210,535</u>	<u>23,984</u>	<u>2,472,910</u>
<u>\$ 5,867,314</u>	<u>\$ 601,891</u>	<u>\$ 97,914</u>	<u>\$ 6,567,119</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (43,166)	\$ 69,476
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	52,897	57,135
(Increase) decrease in:		
Accounts receivable	(50,319)	(15,520)
Grants receivable	285,436	(130,822)
Contributions receivable	80,296	(44,121)
Prepaid expenses	9,324	(9,410)
Increase (decrease) in:		
Accounts payable	(31,413)	(21,973)
Accrued expenses	21,636	34,360
Deferred revenue	(5,697)	2,107
TOTAL ADJUSTMENTS	<u>362,160</u>	<u>(128,244)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>318,994</u>	<u>(58,768)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(29,135)	(5,635)
Maturities of certificates of deposit	347,488	446,013
Purchases of certificates of deposit	<u>(350,196)</u>	<u>(347,488)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(31,843)</u>	<u>92,890</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	287,151	34,122
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>607,555</u>	<u>573,433</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 894,706</u>	<u>\$ 607,555</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, 2005 AND 2004

NOTE 1 - NATURE OF ACTIVITIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements present the 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, 2005 AND 2004

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 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 and money market funds.

Investments

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, 2005, have maturity dates ranging from April, 2006 through June, 2006.

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, 2005 and 2004, all contributions receivable were due within one year.

As of December 31, 2005 and 2004, 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, 2005 AND 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at acquisition cost, at the carrying basis for assets transferred in from merged organizations, or at estimated fair 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 10 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 functional expense 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, 2005 AND 2004

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.

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 or fundraising.

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, 2005 AND 2004

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 comparative 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 45% (44% in 2004) 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, 2005 AND 2004

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2005</u>	<u>2004</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	445,505	434,825
Office furniture and computer equipment	<u>216,042</u>	<u>197,587</u>
	744,547	715,412
Less accumulated depreciation	<u>(291,855)</u>	<u>(238,958)</u>
	<u>\$ 452,692</u>	<u>\$ 476,454</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Contributions and receivables - time restriction	\$ 195,560	\$ 283,987
Contributions for future salaries - purpose restriction	36,868	70,477
United Way receivable - time restriction	<u>64,161</u>	<u>64,544</u>
	<u>\$ 296,589</u>	<u>\$ 419,008</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

NOTE 6 - DONATED SERVICES

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

	<u>2005</u>			<u>2004</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	5,478	\$ 951,895	\$150 - \$175	6,336	\$1,089,259
Paralegals	\$ 50	556	27,800	\$ 50	675	33,750
Law clerk/students	\$10 - \$12	6,715	76,530	\$10 - \$12	6,121	69,004
Other services			<u>66,939</u>			<u>37,539</u>
Total donated services			<u>\$1,123,164</u>			<u>\$1,229,552</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), the Tennessee Department of Human Services (SSI Representation Grant) 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 and SSI Representation Grants, and 25% of the STOP Grant earned during the year. For the years ended December 31, 2005 and 2004, these matches amounted to \$144,874 and \$111,098, 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 2005 and 2004. Total assets held in this fund amounted to \$13,407 and \$9,933 at December 31, 2005 and 2004, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

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 (excluding the Nashville office lease).

In May 2003, the Organization relocated its Nashville office and entered into a ten-year non-cancelable operating lease at the new location. 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, 2005, 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
2006	\$ 175,211	\$ 28,977	\$ 146,234	\$ 29,355	\$ 175,589
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
2010	169,666	32,644	137,022	-	137,022
Thereafter	415,361	79,914	335,447	-	335,447
	<u>\$ 1,240,187</u>	<u>\$ 233,851</u>	<u>\$ 1,006,336</u>	<u>\$ 70,058</u>	<u>\$ 1,076,394</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE  
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005 AND 2004

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Total rental expense recognized under all such agreements for the year ended December 31, 2005, amounted to approximately \$248,000 (\$211,000 in 2004), net of sublease income, for office space, and approximately \$38,000 (\$42,000 in 2004) for office equipment.

The Organization is self-insured for unemployment compensation. Unemployment compensation cost for the years ended December 31, 2005 and 2004, amounted to \$8,005 and \$6,157, respectively.

NOTE 10 - 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 \$118,043 in 2005 (\$141,800 in 2004).

NOTE 11 - FUNDRAISING EXPENSES

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

	<u>2005</u>	<u>2004</u>
Annual fundraising campaign	\$ 50,602	\$ 49,424
Recruiting volunteer attorneys	24,793	25,851
Obtaining other financial resources	<u>19,430</u>	<u>22,639</u>
	<u>\$ 94,825</u>	<u>\$ 97,914</u>

NOTE 12 - SUBSEQUENT EVENT

At December 31, 2005, the Organization received notification that it had been named as the recipient of a testamentary bequest under the will of a recently deceased individual. In March 2006, the Organization received a \$1,500,000 bequest from the individual's estate pursuant to an order issued by the probate court. This gift will be recognized by the Organization in 2006.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2005

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2004	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2005
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09-643040	(1)	N/A	1/1/05 - 12/31/05 \$ 2,356,518	\$ -	\$ 2,356,518	\$ 2,356,518	\$ -	\$ -
<b>TOTAL LEGAL SERVICES CORPORATION</b>						<b>2,356,518</b>	<b>2,356,518</b>		
<u>US DEPARTMENT OF AGRICULTURE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10-561	(2)	GR-03-14988-01	10/1/03 - 9/30/04 \$ 157,500	152	-	-	(152)	-
Food Stamp Education Program	10-561	(2)	GR-05-16735-00	10/1/04 - 9/30/06 \$ 82,450	6,545	33,269	32,381	-	5,657
<b>TOTAL US DEPARTMENT OF AGRICULTURE</b>					<b>6,697</b>	<b>33,269</b>	<b>32,381</b>	<b>(152)</b>	<b>5,657</b>
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE:									
Community Development Block Grant	14-218		N/A	7/1/02 - 6/30/03 \$ 15,500	5	-	-	(5)	-
Community Development Block Grant	14-218		N/A	7/1/04 - 6/30/05 \$ 15,500	9,833	15,500	5,667	-	-
Community Development Block Grant	14-218		N/A	7/1/05 - 6/30/06 \$ 18,500	-	5,529	11,339	-	5,810
Fair Housing Initiatives Program (CDBG)	14-408		N/A	7/1/04 - 6/30/05 \$ 13,000	11,266	12,655	3,954	(2,565)	-
<b>TOTAL PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE</b>					<b>21,104</b>	<b>33,684</b>	<b>20,960</b>	<b>(2,570)</b>	<b>5,810</b>
<u>PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:</u>									
Housing Counseling Assistance Program	14-169		N/A	10/1/04 - 9/30/05 \$ 75,000	18,811	80,139	61,328	-	-
Housing Counseling Assistance Program	14-169		N/A	10/1/05 - 9/30/06 \$ 65,000	-	-	28,199	-	28,199
Housing Counseling Assistance Program (Predatory Lending)	14-169		N/A	10/1/03 - 9/30/04 \$ 13,000	5,095	5,095	-	-	-
Fair Housing Initiatives Program - Private Enforcement	14-408		N/A	3/1/04 - 2/28/05 \$ 29,834	5,161	6,115	2,028	(1,074)	-
Fair Housing Initiatives Program - Private Enforcement	14-408		N/A	12/30/04 - 6/30/06 \$ 31,768	-	6,118	8,567	-	2,449
<b>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</b>					<b>29,067</b>	<b>97,467</b>	<b>100,122</b>	<b>(1,074)</b>	<b>30,648</b>
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					<b>50,171</b>	<b>131,151</b>	<b>121,082</b>	<b>(3,644)</b>	<b>36,458</b>
<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	297,420	297,420	-	-	-

(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, 2005

<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 12/31/2004</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2005</u>
PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE:									
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	N/A	11/1/03 - 10/31/05	\$ 150,573	\$ 16,541	\$ 68,473	\$ 58,525	\$ -	\$ 6,593
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	N/A	10/1/05 - 9/30/07	\$ 90,625	-	-	11,533	-	11,533
TOTAL PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE					16,541	68,473	70,058	-	18,126
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
STOP Violence Against Women (Nashville)	16.588	Z-00-001406-01	7/1/03 - 6/30/06	\$ 79,191	736	18,746	20,078	-	2,068
STOP Violence Against Women (Tullahoma and Columbia)	16.588	Z-00-001402-01	7/1/03 - 6/30/06	\$ 172,020	4,248	49,923	49,968	-	4,293
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-00-099363-01	7/1/03 - 6/30/06	\$ 172,620	4,349	58,134	58,204	-	4,419
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-00-099289-01	7/1/03 - 6/30/06	\$ 169,233	3,758	54,891	55,912	-	4,779
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-00-099290-01	7/1/03 - 6/30/06	\$ 152,880	4,430	50,967	50,759	-	4,222
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION					17,521	232,661	234,921	-	19,781
PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP:									
Military CCR Demonstration Project	16.526	N/A	3/16/05-12/31/05	\$ 25,000	-	12,846	20,815	-	7,969
TOTAL PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP					-	12,846	20,815	-	7,969
<u>TOTAL US DEPARTMENT OF JUSTICE</u>					<u>34,062</u>	<u>313,980</u>	<u>325,794</u>	<u>-</u>	<u>45,876</u>
<u>US DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	2004052	1/1/04 - 12/31/04	\$ 85,000	3,489	3,489	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	2005125	1/1/05 - 12/31/05	\$ 100,000	-	82,396	100,000	-	17,604
<u>TOTAL US DEPARTMENT OF THE TREASURY</u>					<u>3,489</u>	<u>85,885</u>	<u>100,000</u>	<u>-</u>	<u>17,604</u>
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2004-07	7/1/03 - 6/30/04	\$ 40,800	30	-	-	(30)	-
Legal Assistance - Title III Priority	93.044	2005-07	7/1/04 - 6/30/05	\$ 40,800	5,811	19,218	13,407	-	-
Legal Assistance - Title III Priority	93.044	2006-07	7/1/05 - 6/30/06	\$ 40,800	-	18,469	24,148	-	5,679
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					<u>5,841</u>	<u>37,687</u>	<u>37,555</u>	<u>(30)</u>	<u>5,679</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, 2005

<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 12/31/2004</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2005</u>
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY:									
Legal Assistance - Title III Priority	93.044	N/A	7/1/04 - 6/30/05	\$ 36,500	\$ (3,149)	\$ 14,100	\$ 17,249	\$ -	\$ -
Legal Assistance - Title III Priority	93.044	N/A	7/1/05 - 6/30/06	\$ 36,500	-	21,901	21,055	-	(846)
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/03 - 6/30/04	\$ 15,300	(1,008)	-	-	1,000	(8)
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/04 - 6/30/05	\$ 6,300	956	3,800	3,844	(1,000)	-
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/05 - 6/30/06	\$ 6,300	-	3,000	2,081	-	(919)
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY					(3,201)	42,801	44,229	-	(1,773)
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	(3)	GR-06-16908-00	7/1/05 - 6/30/06	\$ 50,000	-	8,127	10,053	-
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES						-	8,127	10,053	-
<u>TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						2,640	88,615	91,837	(30)
TOTAL OF EXPENDITURES OF FEDERAL AWARDS						\$ 97,059	\$ 3,009,418	\$ 3,027,612	\$ (3,826)

Summary of expenditures by CFDA number

- (1) Considered a major program under OMB Circular A-133.  
 (2) Receipts are shown net of matching amount.  
 (3) Federal portion of expenditures \$3,519

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.

09.643040	\$ 2,356,518
10.561	32,381
14.169	89,527
14.218	17,006
14.408	14,549
16.526	20,815
16.575	164,875
16.588	70,046
16.590	70,058
21.008	100,000
93.041	5,925
93.044	75,859
93.558	10,053
Total	\$ 3,027,612

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, 2005

	Basic Field Grant	Private Attorney Involvement	Total
<b>SUPPORT AND REVENUE</b>			
Grants and contracts - LSC	\$ 2,128,122	\$ 228,396	\$ 2,356,518
Contributions and foundation grants	275,933	147,526	423,459
Donated services	-	1,123,164	1,123,164
Total support and revenue	<u>2,404,055</u>	<u>1,499,086</u>	<u>3,903,141</u>
<b>PERSONNEL EXPENSES</b>			
Lawyers	560,746	112,196	672,942
Paralegals	93,831	37,178	131,009
Support staff	555,149	105,486	660,635
Employee benefits	372,779	32,489	405,268
Payroll taxes	83,060	18,876	101,936
Total personnel expenses	<u>1,665,565</u>	<u>306,225</u>	<u>1,971,790</u>
<b>OTHER EXPENSES</b>			
Donated services	-	1,123,164	1,123,164
Court costs and litigation	28,912	22,053	50,965
Dues and fees	1,346	562	1,908
Equipment rental and maintenance	48,597	2,123	50,720
Insurance	39,769	478	40,247
Occupancy	230,644	14,731	245,375
Postage	24,837	2,000	26,837
Printing and publications	43,574	1,306	44,880
Professional fees and contract services	87,202	20,673	107,875
Supplies	53,025	1,023	54,048
Telephone	79,204	1,967	81,171
Training	29,549	289	29,838
Travel	58,610	2,492	61,102
Total other expenses	<u>725,269</u>	<u>1,192,861</u>	<u>1,918,130</u>
<b>TOTAL EXPENSES</b>	<u>2,390,834</u>	<u>1,499,086</u>	<u>3,889,920</u>
<b>SUPPORT AND REVENUE OVER EXPENSES</b>	13,221	-	13,221
<b>OTHER CHANGES IN NET ASSETS</b>			
Acquisition of equipment	<u>(13,221)</u>	<u>-</u>	<u>(13,221)</u>
<b>TOTAL CHANGES IN NET ASSETS</b>	-	-	-
<b>NET ASSETS - BEGINNING OF YEAR</b>	-	-	-
<b>NET ASSETS - END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## OTHER REPORTS

INDEPENDENT AUDITORS' 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 the financial statements of Legal Aid Society of Middle Tennessee and the Cumberland as of and for the year ended December 31, 2005, and have issued our report thereon dated March 28, 2006. 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 an opinion 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 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*.

We noted certain matters that we reported to the management of Legal Aid Society of Middle Tennessee and the Cumberland in a separate letter dated March 28, 2006.

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.



Nashville, Tennessee  
March 28, 2006

INDEPENDENT AUDITORS' REPORT  
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, 2005. Legal Aid Society of Middle Tennessee and the Cumberland's major federal program is identified in the Summary of Auditors' 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.

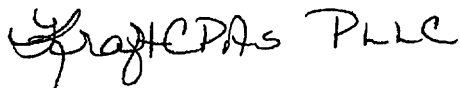
In our opinion, Legal Aid Society of Middle Tennessee and the Cumberlandds complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

#### 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.

GrayCPAs PLLC

Nashville, Tennessee  
March 28, 2006

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005

**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, 2005

**Section III - Federal Award Findings and Questioned Costs**

PRIOR YEAR

None noted in the prior year

CURRENT YEAR

None noted in current year.