

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2009 AND 2008

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2009 AND 2008

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 - 19
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards	20 - 22
Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds	23
 <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>	24 - 25
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Legal Services Corporation Audit Guide and Compliance Supplement.....	26 - 27
Schedule of Findings and Questioned Costs	28

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, 2009 and 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2010, on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Gray CPAs PLLC

Nashville, Tennessee
April 27, 2010

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 413,171	\$ 566,330
Investments - Note 4 and 13	2,961,595	2,262,993
Accounts receivable	83,386	98,151
Grants receivable	218,193	183,897
Contributions receivable	428,950	340,203
Prepaid expenses	23,793	18,320
Property and equipment, net - Note 5	362,328	377,694
Client escrow funds	<u>9,744</u>	<u>14,904</u>
TOTAL ASSETS	<u>\$ 4,501,160</u>	<u>\$ 3,862,492</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 15,532	\$ 18,471
Accrued expenses and other	520,583	496,578
Client escrow deposits	<u>9,744</u>	<u>14,904</u>
TOTAL LIABILITIES	<u>545,859</u>	<u>529,953</u>
COMMITMENTS AND CONTINGENCIES - Note 11		
NET ASSETS		
Unrestricted:		
Undesignated	1,513,604	861,480
Designated for property and equipment	<u>362,328</u>	<u>377,694</u>
Total unrestricted	1,875,932	1,239,174
Temporarily restricted - Note 6	<u>2,079,369</u>	<u>2,093,365</u>
TOTAL NET ASSETS	<u>3,955,301</u>	<u>3,332,539</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,501,160</u>	<u>\$ 3,862,492</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, 2009 AND 2008

		2009			
		TEMPORARILY RESTRICTED			TOTAL
	UNRESTRICTED	LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,759,548	\$ 2,263,062	\$ 5,022,610	\$ 5,022,610
Contributions and foundation grants	621,057	192,995	529,712	722,707	1,343,764
Investment income (loss) - Note 4	242,155	-	-	-	242,155
Miscellaneous income	799	-	-	-	799
Donated services - Note 7	-	1,650,021	-	1,650,021	1,650,021
Net assets released from restrictions	7,409,334	(4,602,564)	(2,806,770)	(7,409,334)	-
TOTAL REVENUES AND SUPPORT	8,273,345	-	(13,996)	(13,996)	8,259,349
OPERATING EXPENSES					
Program services	6,655,185	-	-	-	6,655,185
Supporting services:					
Management and general	813,047	-	-	-	813,047
Fundraising - Note 12	168,355	-	-	-	168,355
TOTAL OPERATING EXPENSES	7,636,587	-	-	-	7,636,587
INCREASE (DECREASE) IN NET ASSETS	636,758	-	(13,996)	(13,996)	622,762
NET ASSETS - BEGINNING OF YEAR	1,239,174	-	2,093,365	2,093,365	3,332,539
NET ASSETS - END OF YEAR	\$ 1,875,932	\$ -	\$ 2,079,369	\$ 2,079,369	\$ 3,955,301

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

2008

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>			<u>TOTAL</u>
	<u>LSC</u>	<u>NON-LSC</u>	<u>TOTAL</u>	
\$ -	\$ 2,507,508	\$ 2,079,315	\$ 4,586,823	\$ 4,586,823
572,165	201,087	637,457	838,544	1,410,709
(319,163)	-	-	-	(319,163)
17,350	-	-	-	17,350
-	1,208,478	-	1,208,478	1,208,478
<u>6,736,290</u>	<u>(3,917,073)</u>	<u>(2,819,217)</u>	<u>(6,736,290)</u>	<u>-</u>
<u>7,006,642</u>	<u>-</u>	<u>(102,445)</u>	<u>(102,445)</u>	<u>6,904,197</u>
6,160,100	-	-	-	6,160,100
728,236	-	-	-	728,236
<u>150,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,645</u>
<u>7,038,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,038,981</u>
(32,339)	-	(102,445)	(102,445)	(134,784)
<u>1,271,513</u>	<u>-</u>	<u>2,195,810</u>	<u>2,195,810</u>	<u>3,467,323</u>
<u>\$ 1,239,174</u>	<u>\$ -</u>	<u>\$ 2,093,365</u>	<u>\$ 2,093,365</u>	<u>\$ 3,332,539</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
			(See Note 12)	
PERSONNEL EXPENSES				
Lawyers	\$ 1,813,688	\$ 122,483	\$ 19,546	\$ 1,955,717
Paralegals	439,994	-	-	439,994
Support staff	915,568	243,106	63,497	1,222,171
Employee benefits - Note 10	591,850	61,359	10,200	663,409
Payroll taxes	232,639	27,139	6,199	265,977
TOTAL PERSONNEL EXPENSES	3,993,739	454,087	99,442	4,547,268
OTHER EXPENSES				
Donated services - Note 7	1,650,021	-	-	1,650,021
Court costs and litigation	96,323	-	-	96,323
Depreciation	68,610	-	-	68,610
Dues and fees	37,771	2,000	-	39,771
Equipment rental and maintenance - Note 11	21,472	42,592	1,571	65,635
Insurance	25,131	10,545	-	35,676
Occupancy - Note 11	281,982	70,341	4,646	356,969
Postage	30,562	9,528	8,100	48,190
Printing and publications	101,288	3,336	15,075	119,699
Professional fees and contract services	71,975	130,576	25,957	228,508
Supplies	54,653	61,683	5,367	121,703
Telephone	58,946	16,851	6,475	82,272
Training	19,170	3,234	519	22,923
Travel	143,542	8,274	1,203	153,019
TOTAL OTHER EXPENSES	2,661,446	358,960	68,913	3,089,319
TOTAL EXPENSES	\$ 6,655,185	\$ 813,047	\$ 168,355	\$ 7,636,587

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

2008

PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
		(See Note 12)	
\$ 1,789,049	\$ 120,085	\$ 42,377	\$ 1,951,511
427,007	-	517	427,524
903,387	198,309	57,113	1,158,809
546,417	42,495	10,715	599,627
230,278	23,709	4,696	258,683
3,896,138	384,598	115,418	4,396,154
1,208,478	-	-	1,208,478
81,439	-	-	81,439
64,869	-	-	64,869
36,128	2,714	-	38,842
34,520	23,623	826	58,969
30,985	13,003	25	44,013
281,834	80,446	4,546	366,826
30,858	8,897	5,244	44,999
107,990	6,780	10,919	125,689
79,328	124,552	2,635	206,515
70,216	44,798	5,214	120,228
65,621	23,272	3,605	92,498
26,067	3,507	820	30,394
145,629	12,046	1,393	159,068
2,263,962	343,638	35,227	2,642,827
\$ 6,160,100	\$ 728,236	\$ 150,645	\$ 7,038,981

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 622,762	\$ (134,784)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,610	64,869
Donations of property and equipment	(37,119)	(35,662)
Realized and unrealized (gains) losses on investments	(186,254)	391,403
(Increase) decrease in:		
Accounts receivable	14,765	(56,013)
Grants receivable	(34,296)	(62,777)
Contributions receivable	(88,747)	56,031
Prepaid expenses	(5,473)	(2,906)
Increase (decrease) in:		
Accounts payable	(2,939)	(8,687)
Accrued expenses and other	<u>24,005</u>	<u>(47,183)</u>
TOTAL ADJUSTMENTS	<u>(247,448)</u>	<u>299,075</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>375,314</u>	<u>164,291</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(16,125)	(13,693)
Purchases of investments	(1,194,762)	(1,062,967)
Proceeds from sale of investments	<u>682,414</u>	<u>1,024,201</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(528,473)</u>	<u>(52,459)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(153,159)	111,832
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>566,330</u>	<u>454,498</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 413,171</u>	<u>\$ 566,330</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, 2009 AND 2008

NOTE 1 - NATURE OF ACTIVITIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and operations of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of December 31, 2009 and 2008

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "ASC" or "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

Contributions and Support

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

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

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

Any gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks.

Investments

Investments consist of certificates of deposit (regardless of original maturity), stocks, bonds and money market funds and are carried at the quoted market value on the last business day of the reporting period. Interest and dividend income, as well as realized and unrealized gains and losses, are accounted for in accordance with donor restrictions (temporarily restricted) or, in the absence of specific donor restrictions, as unrestricted. The changes in unrealized gains and losses are recognized in the Statement of Activities.

Certificates of deposit as of December 31, 2009, have maturity dates ranging from April through July, 2010.

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 not included as support until such time as the conditions are substantially met. At December 31, 2009 and 2008, all contributions receivable were due within one year.

As of December 31, 2009 and 2008, an allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

Property and Equipment

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

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

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

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

Program and Supporting Services

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

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

Supporting Services

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

Fundraising - includes costs of activities related to obtaining resources, both financial support and donated legal services. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the annual fundraising campaign. (See Note 12.)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

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

Income Taxes

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

Compensated Absences

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

Use of Estimates

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

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Investments - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid securities and certain other products, such as mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity, or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

Reclassifications

Certain reclassifications have been made in the prior year financial statements to be comparative with the current year presentation. These reclassifications had no effect on results of operations previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2009 and April 27, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, various grants, accounts and contributions receivable, and investments. Contributions receivable consist of corporate contribution pledges, which are widely dispersed to mitigate credit risk, along with United Way receivables. The United Way receivables and grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization receives approximately 42% (44% in 2008) of its revenues, excluding donated services, from Legal Services Corporation.

The Organization maintains cash balances and certificates of deposit at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. FDIC coverage has been increased from \$100,000 to \$250,000 per depositor through December 31, 2013. As of December 31, 2009, the Organization's depositor accounts exceeded FDIC insurance limits by approximately \$441,000 (\$431,000 at December 31, 2008).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 3 - CONCENTRATION OF CREDIT RISK (CONTINUED)

The Organization also maintains investment balances at various brokerage and investment companies. These investments consist of various mutual funds, stocks, and bonds. Generally, they are not insured by the FDIC or any other government agency and are subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation ("SIPC"), a nonprofit membership corporation funded by its member securities broker dealers. SIPC covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Certificates of deposit	\$ 470,717	\$ 367,284
Money market funds	1,081,263	851,449
Equity securities	969,755	693,492
Fixed income securities	<u>439,860</u>	<u>350,768</u>
	<u>\$2,961,595</u>	<u>\$2,262,993</u>

A summary of investment income (loss) follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 55,901	\$ 72,240
Realized losses on investments	(76,217)	(54,190)
Unrealized gains (losses) on investments	<u>262,471</u>	<u>(337,213)</u>
Total investment income (loss)	<u>\$ 242,155</u>	<u>\$ (319,163)</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	479,582	479,582
Office furniture and computer equipment	<u>342,010</u>	<u>288,766</u>
	904,592	851,348
Less accumulated depreciation	<u>(542,264)</u>	<u>(473,654)</u>
	<u>\$ 362,328</u>	<u>\$ 377,694</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2009</u>	<u>2008</u>
Contributions and receivables - time restriction	\$ 367,335	\$ 331,584
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,537,720	1,537,720
Other	110,229	155,667
United Way receivable - time restriction	<u>64,085</u>	<u>68,394</u>
	<u>\$ 2,079,369</u>	<u>\$ 2,093,365</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 7 - DONATED SERVICES

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

	<u>2009</u>			<u>2008</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	8,667	\$1,459,472	\$150 - \$175	6,083	\$1,042,248
Paralegals	\$ 50	1,240	61,981	\$ 50	1,333	66,650
Law clerk/students	\$10 - \$14	7,748	89,341	\$10 - \$14	5,137	58,418
Other services			<u>39,227</u>			<u>41,162</u>
Total donated services			<u>\$1,650,021</u>			<u>\$1,208,478</u>

NOTE 8 - ALLOCATION OF MATCHING FUNDS

The Organization receives grants from the Greater Nashville Regional Council (Title III of the Older Americans Act Grant), the South Central Tennessee Development District Area Agency on Aging and Disability (Title III of the Older Americans Act Grants), the Tennessee Department of Human Services (SSI Representation Grant and Food Stamp Education Grant), the Tennessee Department of Finance and Administration (VOCA and STOP Grants), and the U.S. Department of Treasury (Low-Income Taxpayer Clinic Grant). The Organization is required to match 10% of the Title III Grant, 20% of the VOCA Grant, 25% of the STOP Grant, and 50% of the Food Stamp Education Grant and the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2009 and 2008, these matches amounted to \$141,102 and \$130,455, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 9 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

Two donor-designated endowment funds have been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the funds and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized in the year received. During 2009, the Organization received one distribution in the amount of \$5,100 (\$0 received in 2008). Total assets held in these funds amounted to \$114,474 and \$101,414 at December 31, 2009 and 2008, 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 \$167,570 in 2009 (\$156,265 in 2008).

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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

The Organization also leases certain office equipment under non-cancelable operating leases expiring between June 2010 and October 2011.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

A summary of aggregate future lease commitments for office space and various office equipment as of December 31, 2009, follows:

For the year ending December 31,	Office Space			Equipment	Total Net Lease Commitments
	Minimum Lease Commitments	Sublease Income	Net Lease Commitments	Minimum Lease Commitments	
2010	\$ 204,166	\$ 32,644	\$ 171,522	\$ 35,376	\$ 206,898
2011	186,249	33,619	152,630	25,101	177,731
2012	180,016	34,635	145,381	-	145,381
2013	60,596	11,660	48,936	-	48,936
	<u>\$ 631,027</u>	<u>\$ 112,558</u>	<u>\$ 518,469</u>	<u>\$ 60,477</u>	<u>\$ 578,946</u>

Total rental expense recognized under all such agreements for the years ended December 31, 2009 amounted to approximately \$288,000 (\$280,000 in 2008), net of sublease income, for office space, and approximately \$53,000 for year ended December 31, 2009 (\$55,000 for 2008) for office equipment.

The Organization is self-insured for unemployment compensation. There was no unemployment compensation cost for the year ended December 31, 2009 (\$5,648 for the year ended December 31, 2008).

NOTE 12 - FUNDRAISING EXPENSES

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

	2009	2008
Annual fundraising campaign	\$ 146,520	\$ 111,527
Recruiting volunteer attorneys	10,782	3,052
Obtaining other financial resources	11,053	36,066
	<u>\$ 168,355</u>	<u>\$ 150,645</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009 AND 2008

NOTE 13 - FAIR VALUE MEASUREMENTS

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31:

<u>2009</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments	<u>\$ 2,961,595</u>	<u>\$ 2,590,925</u>	<u>\$ 370,670</u>	<u>\$ -</u>
<u>2008</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments	<u>\$ 2,262,993</u>	<u>\$ 1,895,709</u>	<u>\$ 367,284</u>	<u>\$ -</u>

NOTE 14 - INCOME TAXES

On January 1, 2009, the Organization adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions in an enterprise's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Organization's financial position and results of operations.

As of December 31, 2009 and 2008, the Organization did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years then ended.

The Organization files a U.S. federal Form 990 for organizations exempt from income tax. The Organization's returns for years prior to fiscal year 2006 are closed.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2008	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2009
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1)	N/A	1/01/09 - 12/31/09	\$ 2,759,548	\$ -	\$ 2,759,548	\$ -	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>							\$ 2,759,548		\$ -
<u>US DEPARTMENT OF AGRICULTURE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10.561	GR-05-16735-07	12/01/04 - 9/30/09	\$ 123,203	\$ 8,286	\$ 38,774	\$ 35,765	\$ -	\$ 5,277
Food Stamp Education Program	10.561	GR-10-29680-00	10/01/09 - 9/30/10	\$ 61,602	-	-	14,354	-	14,354
<u>TOTAL US DEPARTMENT OF AGRICULTURE</u>					8,286	38,774	50,119	-	19,631
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH CITY OF CLARKSVILLE:									
Community Development Block Grant	14.218	N/A	7/01/08 - 6/30/09	\$ 18,000	\$ 3,141	\$ 11,386	\$ 8,245	\$ -	\$ -
<u>TOTAL PASSED THROUGH CITY OF CLARKSVILLE</u>					3,141	11,386	8,245	-	-
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Housing Counseling Assistance Program	14.169	HC07-0000-009	10/01/08 - 9/30/09	\$ 77,000	\$ 39,379	\$ 77,000	\$ 38,955	\$ (1,334)	\$ -
Housing Counseling Assistance Program	14.169	N/A	10/01/09 - 9/30/10	\$ 50,000	-	-	26,063	-	26,063
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G05044	3/01/07 - 2/28/08	\$ 38,906	992	992	-	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G05044	3/01/08 - 2/28/09	\$ 38,906	6,518	6,448	542	(612)	-
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G05044	3/01/09 - 2/28/10	\$ 38,906	-	1,473	11,312	-	9,839
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					46,889	85,913	76,872	(1,946)	35,902
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
					50,030	97,299	85,117	(1,946)	35,902
<u>US DEPARTMENT OF JUSTICE</u>									
PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN									
Legal Assistance for Victims Program	16.013	2008-WL-AX-0021	10/01/08 - 9/30/10	\$ 450,000	\$ 46,618	\$ 232,572	\$ 207,916	\$ -	\$ 21,962
<u>TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN</u>					46,618	232,572	207,916	-	21,962

(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, 2009

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2008	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2009
<u>US DEPARTMENT OF JUSTICE (CONTINUED)</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
STOP Violence Against Women (Nashville)	16.588	Z-07-033038-00	7/01/06 - 6/30/09	\$ 67,308	\$ 1,314	\$ 11,453	\$ 10,139	\$ -	\$ -
STOP Violence Against Women (Tullahoma and Columbia)	16.588	Z-07-033039-00	7/01/06 - 6/30/09	\$ 146,217	4,901	25,545	20,644	-	-
STOP Violence Against Women (Nashville)	16.588	4205	7/01/09 - 6/30/12	\$ 67,308	-	7,720	9,979	-	2,259
STOP Violence Against Women (Tullahoma and Columbia)	16.588	4158	7/01/09 - 6/30/12	\$ 146,217	-	20,499	24,513	-	4,014
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-07-033097-00	7/01/06 - 6/30/09	\$ 171,874	4,392	30,559	26,167	-	-
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-07-033113-00	7/01/06 - 6/30/09	\$ 167,337	4,101	28,598	24,497	-	-
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-07-033100-00	7/01/06 - 6/30/09	\$ 151,168	4,379	26,420	22,041	-	-
Victims of Crime Act (VOCA) (Clarksville)	16.575	3968	7/01/09 - 6/30/12	\$ 177,801	-	21,848	26,548	-	4,700
Victims of Crime Act (VOCA) (Nashville)	16.575	3970	7/01/09 - 6/30/12	\$ 174,309	-	22,846	28,248	-	5,402
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	3969	7/01/09 - 6/30/12	\$ 157,467	-	21,320	26,042	-	4,722
ARRA Byrne Justice Assistance Grant (Murfreesboro)	16.803	3516	7/01/09 - 6/30/11	\$ 56,000	-	11,738	14,086	-	2,348
ARRA Byrne Justice Assistance Grant (Columbia)	16.803	3554	7/01/09 - 6/30/11	\$ 56,000	-	12,043	14,452	-	2,409
ARRA STOP Violence Against Women (Columbia)	16.588	3786	7/01/09 - 4/30/11	\$ 57,110	-	9,106	12,255	-	3,149
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION					19,087	249,695	259,611	-	29,003
PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP									
Military CCR Demonstration Project	16.526	N/A	2/01/07 - 6/30/09	\$ 114,235	\$ 2,841	\$ 24,176	\$ 21,335	\$ -	\$ -
TOTAL PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWJP					2,841	24,176	21,335	-	-
TOTAL US DEPARTMENT OF JUSTICE					68,546	506,443	488,862	-	50,965
<u>US DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	2008129	1/01/08 - 12/31/08	\$ 100,000	\$ 30,756	\$ 30,756	\$ -	\$ -	\$ -
Low-Income Taxpayer Clinic Grant Program	21.008	2009137	1/01/09 - 12/31/09	\$ 92,927	-	51,687	92,927	-	41,240
TOTAL US DEPARTMENT OF THE TREASURY					30,756	82,443	92,927	-	41,240
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2009-07	7/01/08 - 6/30/09	\$ 40,800	\$ 6,606	\$ 25,840	\$ 19,234	\$ -	\$ -
Legal Assistance - Title III Priority	93.044	2010-07	7/01/09 - 6/30/10	\$ 40,800	-	24,388	40,800	-	16,412
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					6,606	50,228	60,034	-	16,412

(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, 2009

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2008	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2009
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY									
Legal Assistance - Title III Priority	93.044	N/A	7/1/08 - 6/30/09	\$ 36,500	\$ 5,802	\$ 23,699	\$ 17,897	\$ -	\$ -
Legal Assistance - Title III Priority	93.044	N/A	7/1/09 - 6/30/10	\$ 36,500	-	18,699	30,213	-	11,514
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT									
AREA AGENCY ON AGING AND DISABILITY					5,802	42,398	48,110	-	11,514
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558 (2)	N/A	7/1/08 - 6/30/09	\$ 131,200	\$ 13,871	\$ 56,720	\$ 42,849	\$ -	\$ -
Temporary Assistance for Needy Families - SSI Representation	93.558 (2)	N/A	7/1/09 - 6/30/10	\$ 131,200	-	7,972	50,501	-	42,529
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES					13,871	64,692	93,350	-	42,529
					26,279	157,318	201,494	-	70,455
TOTAL OF EXPENDITURES OF FEDERAL AWARDS									
					\$ 183,897	\$ 3,641,825	\$ 3,678,067	\$ (1,946)	\$ 218,193

Summary of expenditures by CFDA number

09.643040	\$ 2,759,548
10.561	50,119
14.169	65,018
14.218	8,245
14.408	11,854
16.013	207,916
16.526	21,335
16.575	153,543
16.588	65,275
16.588-ARRA	12,255
16.803-ARRA	28,538
21.008	92,927
93.044	108,144
93.558	93,350
Total	\$ 3,678,067

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

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.

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, 2009

	<u>Basic Field Grant</u>	<u>Private Attorney Involvement</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,516,033	\$ 243,515	\$ 2,759,548
Contributions and foundation grants	4,872	188,123	192,995
Donated services	-	1,650,021	1,650,021
Total support and revenue	<u>2,520,905</u>	<u>2,081,659</u>	<u>4,602,564</u>
PERSONNEL EXPENSES			
Lawyers	571,563	162,739	734,302
Paralegals	105,010	41,805	146,815
Support staff	486,483	104,808	591,291
Employee benefits	425,496	32,690	458,186
Payroll taxes	77,995	24,442	102,437
Total personnel expenses	<u>1,666,547</u>	<u>366,484</u>	<u>2,033,031</u>
OTHER EXPENSES			
Donated services	-	1,650,021	1,650,021
Court costs and litigation	63,152	9,494	72,646
Dues and fees	7,240	1,359	8,599
Equipment rental and maintenance	53,050	1,600	54,650
Insurance	28,109	1,500	29,609
Occupancy	273,506	12,477	285,983
Postage	28,361	3,200	31,561
Printing and publications	54,959	2,659	57,618
Professional fees and contract services	107,601	20,416	128,017
Supplies	61,324	5,736	67,060
Telephone	58,121	3,622	61,743
Training	17,165	948	18,113
Travel	96,898	2,143	99,041
Total other expenses	<u>849,486</u>	<u>1,715,175</u>	<u>2,564,661</u>
TOTAL EXPENSES	<u>2,516,033</u>	<u>2,081,659</u>	<u>4,597,692</u>
SUPPORT AND REVENUE OVER EXPENSES	4,872	-	4,872
OTHER CHANGES IN NET ASSETS			
Acquisition of equipment	<u>(4,872)</u>	<u>-</u>	<u>(4,872)</u>
TOTAL CHANGES IN NET ASSETS	-	-	-
NET ASSETS - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<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 (the "Organization") as of and for the year ended December 31, 2009, and have issued our report thereon dated April 27, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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's in a separate letter dated April 27, 2010.

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.

A handwritten signature in black ink that reads "Kragh CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
April 27, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON 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 (the "Organization") with the types of compliance requirements described in the 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, 2009. 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 Cumberlands 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, 2009.

Internal Control Over Compliance

The management of Legal Aid Society of Middle Tennessee and the Cumberlands 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 Cumberlands' internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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.

A handwritten signature in black ink that reads "Gray HCPAS PLLC". The signature is stylized with a large, looping "G" and "Y" at the beginning.

Nashville, Tennessee
April 27, 2010

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2009

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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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 OMB 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