

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2011 AND 2010

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") as of December 31, 2011 and 2010, 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 the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, 2011 and 2010, 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 24, 2012, 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 and the Legal Services Corporation ("LSC") Audit Guide and Compliance Supplement and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the scheduled of expenditures of federal awards and the schedule of support, revenue, expenses and changes in net assets for LSC funds are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Yaghi CPAs PLLC

Nashville, Tennessee
April 24, 2012

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 665,892	\$ 786,122
Investments	3,515,504	3,204,282
Accounts receivable	23,827	22,977
Federal, state and local grants receivable	222,915	269,875
Contributions receivable	496,051	474,894
Prepaid expenses	74,243	14,148
Property and equipment, net	307,530	319,859
Client escrow funds	<u>7,048</u>	<u>6,951</u>
 TOTAL ASSETS	 <u>\$ 5,313,010</u>	 <u>\$ 5,099,108</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 53,088	\$ 55,761
Accrued expenses and other	564,805	541,556
Client escrow deposits	<u>7,048</u>	<u>6,951</u>
 TOTAL LIABILITIES	 <u>624,941</u>	 <u>604,268</u>
 NET ASSETS		
Unrestricted:		
Undesignated	2,276,839	1,987,456
Designated for property and equipment	<u>307,530</u>	<u>319,859</u>
 Total unrestricted	 2,584,369	 2,307,315
 Temporarily restricted	 <u>2,103,700</u>	 <u>2,187,525</u>
 TOTAL NET ASSETS	 <u>4,688,069</u>	 <u>4,494,840</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,313,010</u>	 <u>\$ 5,099,108</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, 2011 AND 2010

		2011			
		TEMPORARILY RESTRICTED			
	UNRESTRICTED	LSC	NON-LSC	TOTAL	TOTAL
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,856,421	\$ 2,224,881	\$ 5,081,302	\$ 5,081,302
Contributions and foundation grants	217,679	475,436	787,994	1,263,430	1,481,109
Investment income	60,205	-	-	-	60,205
Attorney fees	62,446	89,054	-	89,054	151,500
Miscellaneous income	500	-	-	-	500
Donated services	-	2,940,475	-	2,940,475	2,940,475
Net assets released from restrictions	9,458,086	(6,361,386)	(3,096,700)	(9,458,086)	-
TOTAL REVENUES AND SUPPORT	9,798,916	-	(83,825)	(83,825)	9,715,091
OPERATING EXPENSES					
Program services	8,389,647	-	-	-	8,389,647
Supporting services:					
Management and general	949,372	-	-	-	949,372
Fundraising	182,843	-	-	-	182,843
TOTAL OPERATING EXPENSES	9,521,862	-	-	-	9,521,862
INCREASE (DECREASE) IN NET ASSETS	277,054	-	(83,825)	(83,825)	193,229
NET ASSETS - BEGINNING OF YEAR	2,307,315	-	2,187,525	2,187,525	4,494,840
NET ASSETS - END OF YEAR	\$ 2,584,369	\$ -	\$ 2,103,700	\$ 2,103,700	\$ 4,688,069

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

2010

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,979,591	\$ 2,213,129	\$ 5,192,720	\$ 5,192,720
369,274	213,783	725,524	939,307	1,308,581
109,540	-	-	-	109,540
2,634	-	-	-	2,634
650	-	-	-	650
-	2,425,199	-	2,425,199	2,425,199
8,600,725	(5,618,573)	(2,982,152)	(8,600,725)	-
9,082,823	-	(43,499)	(43,499)	9,039,324
7,604,375	-	-	-	7,604,375
868,798	-	-	-	868,798
178,267	-	-	-	178,267
8,651,440	-	-	-	8,651,440
431,383	-	(43,499)	(43,499)	387,884
1,875,932	-	2,231,024	2,231,024	4,106,956
\$ 2,307,315	\$ -	\$ 2,187,525	\$ 2,187,525	\$ 4,494,840

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 2,047,251	\$ 159,464	\$ 12,665	\$ 2,219,380
Paralegals	446,930	-	-	446,930
Support staff	963,081	293,650	63,239	1,319,970
Employee benefits	661,255	78,469	9,855	749,579
Payroll taxes	244,593	24,009	5,380	273,982
TOTAL PERSONNEL EXPENSES	<u>4,363,110</u>	<u>555,592</u>	<u>91,139</u>	<u>5,009,841</u>
OTHER EXPENSES				
Donated services	2,940,475	-	-	2,940,475
Court costs and litigation	180,726	-	-	180,726
Depreciation	74,259	-	-	74,259
Dues and fees	14,350	3,380	-	17,730
Equipment rental and maintenance	50,086	26,352	433	76,871
Insurance	15,652	17,475	-	33,127
Occupancy	235,575	111,395	5,034	352,004
Postage	27,079	6,544	8,326	41,949
Printing and publications	99,664	7,923	21,906	129,493
Professional fees and contract services	136,095	136,945	44,544	317,584
Supplies	50,173	28,932	8,779	87,884
Telephone	56,284	30,869	986	88,139
Training	27,292	4,030	415	31,737
Travel	118,827	19,935	1,281	140,043
TOTAL OTHER EXPENSES	<u>4,026,537</u>	<u>393,780</u>	<u>91,704</u>	<u>4,512,021</u>
TOTAL EXPENSES	<u>\$ 8,389,647</u>	<u>\$ 949,372</u>	<u>\$ 182,843</u>	<u>\$ 9,521,862</u>

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

2010

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 1,887,262	\$ 166,518	\$ 20,765	\$ 2,074,545
461,462	-	97	461,559
942,271	259,965	64,640	1,266,876
645,658	57,505	11,417	714,580
242,107	31,614	6,347	280,068
<u>4,178,760</u>	<u>515,602</u>	<u>103,266</u>	<u>4,797,628</u>
2,425,199	-	-	2,425,199
93,414	6,000	370	99,784
79,395	-	-	79,395
22,423	1,937	-	24,360
37,251	20,463	752	58,466
29,037	9,796	-	38,833
225,573	107,123	4,670	337,366
29,288	8,885	2,144	40,317
96,102	7,296	16,813	120,211
116,760	120,504	35,730	272,994
59,677	21,805	11,180	92,662
52,387	23,222	1,367	76,976
32,176	4,655	1,110	37,941
126,933	21,510	865	149,308
<u>3,425,615</u>	<u>353,196</u>	<u>75,001</u>	<u>3,853,812</u>
<u>\$ 7,604,375</u>	<u>\$ 868,798</u>	<u>\$ 178,267</u>	<u>\$ 8,651,440</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 193,229	\$ 387,884
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	74,259	79,395
Donations of property and equipment	(50,370)	-
Realized and unrealized gains on investments	(528)	(54,192)
(Increase) decrease in:		
Accounts receivable	(850)	(14,062)
Federal, state and local grants receivable	46,960	22,789
Contributions receivable	(21,157)	105,711
Prepaid expenses	(60,095)	9,645
Increase (decrease) in:		
Accounts payable	(2,673)	40,229
Accrued expenses and other	23,249	20,973
TOTAL ADJUSTMENTS	<u>8,795</u>	<u>210,488</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>202,024</u>	<u>598,372</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(11,560)	(36,926)
Purchases of investments	(660,182)	(916,175)
Proceeds from sale of investments	<u>349,488</u>	<u>727,680</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(322,254)</u>	<u>(225,421)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(120,230)	372,951
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>786,122</u>	<u>413,171</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 665,892</u>	<u>\$ 786,122</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, 2011 AND 2010

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 changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of December 31, 2011 and 2010.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

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

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Certificates of deposit as of December 31, 2011, have maturity dates ranging from January through September 2012.

Contributions Receivable

Unconditional promises to give, less an applicable allowance for uncollectible amounts, are recognized as revenues in the period received. Conditional promises to give are not included as support until such time as the conditions are substantially met. At December 31, 2011 and 2010, all contributions receivable were due within one year.

As of December 31, 2011 and 2010, 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, 2011 AND 2010

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.

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

DECEMBER 31, 2011 AND 2010

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.

The Organization files U. S. federal Form 990 for organizations exempt from income tax. The Organization's returns for years prior to fiscal year 2008 are no longer open to examination.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax return to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there were no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications have no effect on the change in net assets previously reported.

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

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Organization classifies its investments measured at fair value based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

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

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

Investments - equity securities, corporate bonds and collateralized mortgage obligations
- Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded, and are classified within Level 1 of the valuation hierarchy. These investments also include securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data, and other relevant elements, and are classified within Level 2 of the valuation hierarchy.

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

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2011 and April 24, 2012, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

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

DECEMBER 31, 2011 AND 2010

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.

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. As of December 31, 2011, the Organization's depositor accounts exceeded FDIC insurance limits by approximately \$999,000 (\$738,000 at December 31, 2010).

Contributions receivable consist of corporate contribution pledges along with United Way receivables. Pledges and receivables from three contributors approximated 53% of total contributions receivable as of December 31, 2011 (58% in 2010). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization receives approximately 42% (45% in 2010) of its revenues, excluding donated services, from Legal Services Corporation. Revenue from one other source was approximately 16% of its revenues, excluding donated services, in 2011 (16% in 2010).

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodians of the Organization's securities are covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Cash and money market funds	\$ 1,251,240	\$ 1,284,553
Certificates of deposit	911,472	537,710
Equity securities	895,134	941,932
Fixed income securities	<u>457,658</u>	<u>440,087</u>
	<u>\$ 3,515,504</u>	<u>\$ 3,204,282</u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 59,677	\$ 55,348
Realized gains (losses) on investments	58	(49,073)
Unrealized gains on investments	<u>470</u>	<u>103,265</u>
Total investment income	<u>\$ 60,205</u>	<u>\$ 109,540</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 5 - FAIR VALUE MEASUREMENTS

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

	2011			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 457,658	\$ -	\$ 457,658
Equity securities:				
Common stock - domestic				
Basic materials	90,694	-	-	90,694
Consumer and industrial goods	150,457	-	-	150,457
Financial	45,780	-	-	45,780
Healthcare	106,618	-	-	106,618
Services	223,260	-	-	223,260
Technology	52,222	-	-	52,222
Utilities	44,000	-	-	44,000
Other	32,238	-	-	32,238
Foreign stock	58,874	-	-	58,874
Mutual funds				
International - large value	41,844	-	-	41,844
Small cap	20,490	-	-	20,490
Diversified emerging markets	28,657	-	-	28,657
<i>Total investments at fair value</i>	<u>\$ 895,134</u>	<u>\$ 457,658</u>	<u>\$ -</u>	<u>\$ 1,352,792</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2010			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Collateralized mortgage obligations	\$ -	\$ 49,275	\$ -	\$ 49,275
Corporate bonds - domestic	-	390,812	-	390,812
Equity securities:				
Common stock - domestic				
Basic materials	98,621	-	-	98,621
Consumer and industrial goods	124,548	-	-	124,548
Financial	48,066	-	-	48,066
Healthcare	87,566	-	-	87,566
Services	248,359	-	-	248,359
Technology	81,519	-	-	81,519
Utilities	35,620	-	-	35,620
Other	43,896	-	-	43,896
Foreign stock	77,415	-	-	77,415
Mutual funds				
International - large value	51,708	-	-	51,708
Small cap	20,541	-	-	20,541
Diversified emerging markets	24,073	-	-	24,073
<i>Total investments at fair value</i>	<u>\$ 941,932</u>	<u>\$ 440,087</u>	<u>\$ -</u>	<u>\$ 1,382,019</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	479,582	479,582
Office furniture and computer equipment	<u>440,866</u>	<u>378,936</u>
	1,003,448	941,518
Less accumulated depreciation	<u>(695,918)</u>	<u>(621,659)</u>
	<u>\$ 307,530</u>	<u>\$ 319,859</u>

During 2011, the Organization entered into a purchase agreement for a case management software system of approximately \$120,000. The purchase agreement includes the software license, maintenance and support for a year, custom data conversion and training. Approximately, \$76,000 of this amount will be capitalized once the software system is in service. At December 31, 2011, the Organization had paid approximately \$60,000 as a down payment, which is reported in prepaid expenses on the Statement of Financial Position. In addition, the Organization obtained \$104,000 in temporarily restricted foundation grants to be used for this purchase. Approximately \$44,000 of unspent funds is included in temporarily restricted net assets with purpose restrictions at December 31, 2011.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Contributions and receivables - time restriction	\$ 513,928	\$ 490,307
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,510,987
Other	92,168	119,571
United Way receivable - time restriction	<u>67,405</u>	<u>66,660</u>
	<u>\$ 2,103,700</u>	<u>\$ 2,187,525</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 8 - DONATED SERVICES

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

	<u>2011</u>			<u>2010</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	\$175 - \$225	13,204	\$2,756,050	\$175 - \$225	10,309	\$2,226,613
Paralegals	\$ 75	960	72,000	\$ 75	1,344	100,800
Law clerk/students	\$10 - \$14	7,625	86,691	\$10 - \$14	5,403	62,334
Other services			<u>25,734</u>			<u>35,452</u>
Total donated services			<u>\$2,940,475</u>			<u>\$2,425,199</u>

NOTE 9 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from \$650 to \$4,670 (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 a non-cancelable operating lease expiring September 2016.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - LEASES (CONTINUED)

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2011, 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	
2012	\$ 267,116	\$ 34,635	\$ 232,481	\$ 26,999	\$ 259,480
2013	148,196	11,660	136,536	26,999	163,535
2014	87,041	-	87,041	26,999	114,040
2015	86,762	-	86,762	26,999	113,761
2016	32,020	-	32,020	20,249	52,269
	<u>\$ 621,135</u>	<u>\$ 46,295</u>	<u>\$ 574,840</u>	<u>\$ 128,245</u>	<u>\$ 703,085</u>

Total rental expense recognized under all such agreements for the years ended December 31, 2011 amounted to approximately \$274,000 (\$266,000 in 2010), net of sublease income, for office space, and approximately \$50,000 for year ended December 31, 2011 (\$52,000 for 2010) for office equipment.

NOTE 10 - RETIREMENT PLAN

The Organization's eligible employees are covered under a 401(k) retirement plan. At the discretion of the Board, contributions to the plan are made by the Organization on behalf of all eligible employees based on their compensation. Total retirement plan expense of the Organization amounted to \$180,994 in 2011 (\$174,939 in 2010).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 11 - FUNDRAISING EXPENSES

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

	<u>2011</u>	<u>2010</u>
Annual fundraising campaign	\$ 149,274	\$ 159,115
Recruiting volunteer attorneys	19,339	8,674
Obtaining other financial resources	<u>14,230</u>	<u>10,478</u>
	<u>\$ 182,843</u>	<u>\$ 178,267</u>

NOTE 12 - ALLOCATION OF MATCHING FUNDS

The Organization receives the following grants which require matching funds: Greater Nashville Regional Council (Title III of the Older Americans Act Grant), the South Central Tennessee Development District Area Agency on Aging and Disability (Title III of the Older Americans Act Grants), the Tennessee Alliance for Legal Services (Grier), the Tennessee Department of Finance and Administration (VOCA and STOP Grants), and the U.S. Department of Treasury (Low-Income Taxpayer Clinic Grant). In 2010, the Organization also received a grant which required matching funds from the Tennessee Department of Human Services (Food Stamp Education Grant). The Organization is required to match 10% of the Title III Grants and TALS Grier, 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, 2011 and 2010, these matches amounted to \$243,827 and \$277,960, respectively.

NOTE 13 - 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 2011, the Organization received one distribution in the amount of \$4,900 (\$4,500 received in 2010). Total assets held in these funds amounted to \$126,575 and \$122,754 at December 31, 2011 and 2010, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

<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 12/31/2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2011</u>
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1)	N/A	1/01/11 - 12/31/11	\$ 2,856,421	\$ -	\$ 2,856,421	\$ 2,856,421	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>						-	2,856,421	2,856,421	-
<u>US DEPARTMENT OF AGRICULTURE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10.561		GR-10-29680-00	10/01/10 - 9/30/11	\$ 73,648	4,859	4,859	-	-
<u>TOTAL US DEPARTMENT OF AGRICULTURE</u>						4,859	4,859	-	-
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Housing Counseling Assistance Program	14.169		N/A	10/01/10 - 9/30/11	\$ 65,000	17,483	65,000	48,977	(1,460)
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G08048	3/01/09 - 2/28/10	\$ 38,906	3,888	3,888	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G08048	3/01/10 - 2/28/11	\$ 38,906	11,794	12,997	1,282	(36)
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G08048	3/01/11 - 2/28/12	\$ 38,906	-	5,486	10,933	-
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>						33,165	87,371	61,192	(1,496)
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>						33,165	87,371	61,192	(1,496)
<u>US DEPARTMENT OF JUSTICE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
ARRA - Byrne Justice Assistance Grant (Murfreesboro)	16.803 - ARRA	3516		7/01/09 - 6/30/11	\$ 56,000	2,333	16,333	14,000	-
ARRA - Byrne Justice Assistance Grant (Columbia)	16.803 - ARRA	3554		7/01/09 - 6/30/11	\$ 56,000	2,409	15,959	13,550	-
ARRA - STOP Violence Against Women (Columbia)	16.588 - ARRA	3786		7/01/09 - 6/30/11	\$ 57,110	2,596	12,783	10,187	-
Victims of Crime Act (VOCA) (Clarksville)	16.575	3968		7/01/09 - 6/30/12	\$ 177,801	5,048	53,486	53,602	-
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	3969		7/01/09 - 6/30/12	\$ 157,467	4,273	49,970	49,736	-
Victims of Crime Act (VOCA) (Nashville)	16.575	3970		7/01/09 - 6/30/12	\$ 174,309	4,533	58,139	58,119	-
STOP Violence Against Women (Tullahoma and Columbia)	16.588	4158		7/01/09 - 6/30/12	\$ 146,217	3,159	43,520	44,667	-
STOP Violence Against Women (Nashville)	16.588	4205		7/01/09 - 6/30/12	\$ 67,308	1,687	20,252	20,088	-
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>						26,038	270,442	263,949	-

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LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

<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 12/31/2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2011</u>
PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN									
Legal Assistance for Victims Program	16.013	2008-WL-AX-0021	10/01/08 - 9/30/12	\$ 950,000	\$ 20,765	\$ 234,095	\$ 231,998	\$ -	\$ 18,668
TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN					20,765	234,095	231,998	-	18,668
<u>TOTAL US DEPARTMENT OF JUSTICE</u>					46,803	504,537	495,947		38,213
<u>US DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	2009137	1/01/10 - 12/31/10	\$ 94,494	30,113	30,113	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	2010135	1/01/11 - 12/31/11	\$ 95,000	-	86,629	95,000	-	8,371
<u>TOTAL US DEPARTMENT OF THE TREASURY</u>					30,113	116,742	95,000	-	8,371
<u>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2010-07	7/01/10 - 6/30/11	\$ 40,800	6,222	26,922	20,700	-	-
Legal Assistance - Title III Priority	93.044	2010-07	7/01/11 - 6/30/12	\$ 40,800	-	13,473	20,178	-	6,705
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					6,222	40,395	40,878	-	6,705
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY									
Legal Assistance - Title III Priority	93.044	N/A	7/01/10 - 6/30/11	\$ 36,500	-	17,800	17,800	-	-
Legal Assistance - Title III Priority	93.044	N/A	7/01/11 - 6/30/12	\$ 36,500	-	18,200	18,200	-	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY					-	36,000	36,000	-	-

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LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

<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 12/31/2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2011</u>
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/09 - 6/30/10	N/A	\$ 26,438	\$ 26,438	\$ -	\$ -	\$ -
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/10 - 6/30/11	N/A	54,791	118,099	135,930	-	72,622
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/11 - 6/30/12	N/A	-	-	43,543	-	43,543
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES					81,229	144,537	179,473	-	116,165
<u>TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					87,451	220,932	256,351	-	122,870
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 202,391	\$ 3,790,862	\$ 3,764,911	\$ (1,496)	\$ 174,944

Summary of expenditures by CFDA number

09.643040	\$ 2,856,421
14.169	48,977
14.408	12,215
16.013	231,998
16.575	161,457
16.588	64,755
16.588 - ARRA	10,187
16.803 - ARRA	27,550
21.008	95,000
93.044	76,878
93.558	179,473
Total	\$ 3,764,911

(1) Considered a major program under OMB Circular A-133.

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, 2011

	Basic Field Grant	Private Attorney Involvement	Total
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,565,952	\$ 290,469	\$ 2,856,421
Contributions and foundation grants	264,185	211,251	475,436
Attorney fees	59,072	29,982	89,054
Donated services	-	2,940,475	2,940,475
Total support and revenue	<u>2,889,209</u>	<u>3,472,177</u>	<u>6,361,386</u>
PERSONNEL EXPENSES			
Lawyers	691,810	210,756	902,566
Paralegals	109,807	41,945	151,752
Support staff	685,678	119,339	805,017
Employee benefits	471,123	35,216	506,339
Payroll taxes	93,209	27,371	120,580
Total personnel expenses	<u>2,051,627</u>	<u>434,627</u>	<u>2,486,254</u>
OTHER EXPENSES			
Donated services	-	2,940,475	2,940,475
Court costs and litigation	58,500	5,351	63,851
Dues and fees	2,585	512	3,097
Equipment rental and maintenance	59,365	1,600	60,965
Insurance	29,947	750	30,697
Occupancy	252,458	12,477	264,935
Postage	22,682	3,200	25,882
Printing and publications	58,075	2,624	60,699
Professional fees and contract services	112,585	60,835	173,420
Supplies	50,596	3,506	54,102
Telephone	70,057	3,622	73,679
Training	19,734	1,260	20,994
Travel	92,038	1,338	93,376
Total other expenses	<u>828,622</u>	<u>3,037,550</u>	<u>3,866,172</u>
TOTAL EXPENSES	<u>2,880,249</u>	<u>3,472,177</u>	<u>6,352,426</u>
SUPPORT AND REVENUE OVER EXPENSES	8,960	-	8,960
OTHER CHANGES IN NET ASSETS			
Acquisition of equipment	<u>(8,960)</u>	-	<u>(8,960)</u>
TOTAL CHANGES IN NET ASSETS	-	-	-
NET ASSETS - BEGINNING OF YEAR	-	-	-
NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER REPORTS

INDEPENDENT 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, 2011, and have issued our report thereon dated April 24, 2012. 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

Management of Legal Aid Society of Middle Tennessee and the Cumberland is responsible for establishing and maintaining effective 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 Cumberlands' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Legal Aid Society of Middle Tennessee and the Cumberlands in a separate letter dated April 24, 2012.

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.

Handwritten signature of Y. Kraft in black ink.

Nashville, Tennessee
April 24, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Legal Aid Society of Middle Tennessee and the Cumberland's (the "Organization") compliance 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 could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2011. 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 Cumberland complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

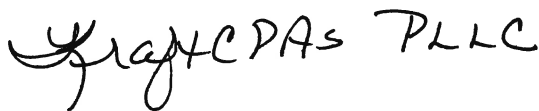
The management of Legal Aid Society of Middle Tennessee and the Cumberland is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Legal Aid Society of Middle Tennessee and the Cumberland's 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Legal Aid Society of Middle Tennessee and the Cumberland's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Organization's response, and accordingly, we express no opinion on the response.

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.

Grant CPAs PLLC

Nashville, Tennessee
April 24, 2012

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2011

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? _____ 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? X yes _____ no

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings

Prior Year - None reported

Current Year - None reported

Section III - Federal Award Findings and Questioned Costs

Prior year - None reported

Current Year:

2011-1 Internal Control Over Accounting for Attorney Fees Received

Legal Services Corporation (LSC) - Basic Field Grant
CFDA 09.643040

Criteria

In accordance with the LSC *Accounting Guide for Recipients*, Section 2-2.6 Court-Awarded Attorney Fees, attorneys' fees received by a recipient for representation supported in whole or in part with LSC funds shall be allocated to the fund in which the recipient's LSC grant is recorded in the same proportion that the LSC funds expended bears to the total amount expended to support the representation.

Condition

The trial balance provided to the auditors at the beginning of the audit contained attorney fees of approximately \$150,000, recorded entirely as non-LSC revenue in the Organization's general ledger. Upon further review, the salaries of attorneys who represented the clients whose cases resulted in court awarded attorney fees were charged in part to the LSC basic field grant, along with other litigation expenses incurred.

Questioned costs

None

Context

As part of performing compliance work outlined in the *Compliance Supplement for Audits of LSC Recipients*, Section 1642, three cases were identified that resulted in court awarded attorney fees during the year ended December 31, 2011. Two of the three cases were represented in part using funds from LSC.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

Section III - Federal Award Findings and Questioned Costs (continued)

2011-1 Internal Control Over Accounting for Attorney Fees Received (continued)

Effect

At the request of the auditors, Organization recalculated the portion of the attorney fees received that should be allocated to the LSC program, resulting in a reclassification of approximately \$89,000 of LSC income from attorney fees and approximately \$30,000 of additional LSC private attorney involvement (PAI) expenses. These amounts have been properly reflected in the required Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds in the financial statements. Actual LSC expenses in excess of the Basic Field Grant and LSC related attorney fees received was approximately \$475,000, which was funded from the Organization's other contributions and foundation grants.

Cause

In prior years, the Organization had received very few (if any) attorney fees from court awarded settlements and therefore had not instituted a policy to determine the source of the original representation. The Organization has historically had significantly more LSC-eligible expenses than the Basic Field Grant award.

Recommendation

We recommend the Organization institute a policy to determine the source of funding for representation that results in court awarded attorney fees and ensures that the funds received are accounted for consistently with the guidance in the *LSC Accounting Guide for Recipients*.

Views of Responsible Officials and Planned Corrective Actions

Legal Aid Society attorneys will notify the Operations Manager of potentially fee generating cases as defined by the LSC regulation. The Operations Manager will keep a file of these cases. If the case generates attorney fees, the Operations Manager will research the case to see what funds were used to pay for the case. The Operations Manager will notify the Accountant of the fee generating case and what funds were used. If the case was funded in whole or in part with LSC funds, the Accountant will record the proper entry in the accounting system in accordance with the *LSC Accounting Guide for Recipients*, Section 2-2.6 Court Awarded Fees.