

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2010 AND 2009

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and 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, 2010 and 2009, 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 21, 2011, 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 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 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Y. Kraft CPAs PLLC

Nashville, Tennessee
April 21, 2011

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
		(Restated - Note 14)
<u>ASSETS</u>		
Cash and cash equivalents	\$ 786,122	\$ 413,171
Investments - Notes 4 and 13	3,204,282	2,961,595
Accounts receivable	22,977	8,915
Federal, state and local grants receivable	269,875	292,664
Contributions receivable	474,894	580,605
Prepaid expenses	14,148	23,793
Property and equipment, net - Note 5	319,859	362,328
Client escrow funds	<u>6,951</u>	<u>9,744</u>
 TOTAL ASSETS	 <u>\$ 5,099,108</u>	 <u>\$ 4,652,815</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 55,761	\$ 15,532
Accrued expenses and other	541,556	520,583
Client escrow deposits	<u>6,951</u>	<u>9,744</u>
 TOTAL LIABILITIES	 <u>604,268</u>	 <u>545,859</u>
 COMMITMENTS AND CONTINGENCIES - Note 11		
 NET ASSETS		
Unrestricted:		
Undesignated	1,987,456	1,513,604
Designated for property and equipment	<u>319,859</u>	<u>362,328</u>
 Total unrestricted	 2,307,315	 1,875,932
 Temporarily restricted - Note 6	 <u>2,187,525</u>	 <u>2,231,024</u>
 TOTAL NET ASSETS	 <u>4,494,840</u>	 <u>4,106,956</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,099,108</u>	 <u>\$ 4,652,815</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, 2010 AND 2009

	2010				
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>			<u>TOTAL</u>
		<u>LSC</u>	<u>NON-LSC</u>	<u>TOTAL</u>	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,979,591	\$ 2,213,129	\$ 5,192,720	\$ 5,192,720
Contributions and foundation grants	369,274	213,783	725,524	939,307	1,308,581
Investment income - Note 4	109,540	-	-	-	109,540
Miscellaneous income	3,284	-	-	-	3,284
Donated services - Note 7	-	2,425,199	-	2,425,199	2,425,199
Net assets released from restrictions	<u>8,600,725</u>	<u>(5,618,573)</u>	<u>(2,982,152)</u>	<u>(8,600,725)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>9,082,823</u>	<u>-</u>	<u>(43,499)</u>	<u>(43,499)</u>	<u>9,039,324</u>
OPERATING EXPENSES					
Program services	7,604,375	-	-	-	7,604,375
Supporting services:					
Management and general	868,798	-	-	-	868,798
Fundraising - Note 12	<u>178,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,267</u>
TOTAL OPERATING EXPENSES	<u>8,651,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,651,440</u>
INCREASE (DECREASE) IN NET ASSETS	431,383	-	(43,499)	(43,499)	387,884
NET ASSETS - BEGINNING OF YEAR, as restated - Note 14	<u>1,875,932</u>	<u>-</u>	<u>2,231,024</u>	<u>2,231,024</u>	<u>4,106,956</u>
NET ASSETS - END OF YEAR	<u>\$ 2,307,315</u>	<u>\$ -</u>	<u>\$ 2,187,525</u>	<u>\$ 2,187,525</u>	<u>\$ 4,494,840</u>

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

2009

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	(Restated - Note 14)			
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,759,548	\$ 2,263,062	\$ 5,022,610	\$ 5,022,610
378,731	192,995	681,367	874,362	1,253,093
242,155	-	-	-	242,155
799	-	-	-	799
-	1,650,021	-	1,650,021	1,650,021
7,651,660	(4,602,564)	(3,049,096)	(7,651,660)	-
8,273,345	-	(104,667)	(104,667)	8,168,678
6,655,185	-	-	-	6,655,185
813,047	-	-	-	813,047
168,355	-	-	-	168,355
7,636,587	-	-	-	7,636,587
636,758	-	(104,667)	(104,667)	532,091
1,239,174	-	2,335,691	2,335,691	3,574,865
\$ 1,875,932	\$ -	\$ 2,231,024	\$ 2,231,024	\$ 4,106,956

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
	(See Note 12)			
PERSONNEL EXPENSES				
Lawyers	\$ 1,887,262	\$ 166,518	\$ 20,765	\$ 2,074,545
Paralegals	461,462	-	97	461,559
Support staff	942,271	259,965	64,640	1,266,876
Employee benefits - Note 10	645,658	57,505	11,417	714,580
Payroll taxes	242,107	31,614	6,347	280,068
TOTAL PERSONNEL EXPENSES	<u>4,178,760</u>	<u>515,602</u>	<u>103,266</u>	<u>4,797,628</u>
OTHER EXPENSES				
Donated services - Note 7	2,425,199	-	-	2,425,199
Court costs and litigation	93,414	6,000	370	99,784
Depreciation	79,395	-	-	79,395
Dues and fees	22,423	1,937	-	24,360
Equipment rental and maintenance - Note 11	37,251	20,463	752	58,466
Insurance	29,037	9,796	-	38,833
Occupancy - Note 11	225,573	107,123	4,670	337,366
Postage	29,288	8,885	2,144	40,317
Printing and publications	96,102	7,296	16,813	120,211
Professional fees and contract services	116,760	120,504	35,730	272,994
Supplies	59,677	21,805	11,180	92,662
Telephone	52,387	23,222	1,367	76,976
Training	32,176	4,655	1,110	37,941
Travel	126,933	21,510	865	149,308
TOTAL OTHER EXPENSES	<u>3,425,615</u>	<u>353,196</u>	<u>75,001</u>	<u>3,853,812</u>
TOTAL EXPENSES	<u>\$ 7,604,375</u>	<u>\$ 868,798</u>	<u>\$ 178,267</u>	<u>\$ 8,651,440</u>

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

2009

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
(See Note 12)			
\$ 1,813,688	\$ 122,483	\$ 19,546	\$ 1,955,717
439,994	-	-	439,994
915,568	243,106	63,497	1,222,171
591,850	61,359	10,200	663,409
232,639	27,139	6,199	265,977
<u>3,993,739</u>	<u>454,087</u>	<u>99,442</u>	<u>4,547,268</u>
1,650,021	-	-	1,650,021
96,323	-	-	96,323
68,610	-	-	68,610
37,771	2,000	-	39,771
21,472	42,592	1,571	65,635
25,131	10,545	-	35,676
281,982	70,341	4,646	356,969
30,562	9,528	8,100	48,190
101,288	3,336	15,075	119,699
71,975	130,576	25,957	228,508
54,653	61,683	5,367	121,703
58,946	16,851	6,475	82,272
19,170	3,234	519	22,923
143,542	8,274	1,203	153,019
<u>2,661,446</u>	<u>358,960</u>	<u>68,913</u>	<u>3,089,319</u>
<u>\$ 6,655,185</u>	<u>\$ 813,047</u>	<u>\$ 168,355</u>	<u>\$ 7,636,587</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u> (Restated - Note 14)
OPERATING ACTIVITIES		
Change in net assets	\$ 387,884	\$ 532,091
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,395	68,610
Donations of property and equipment	-	(37,119)
Realized and unrealized gains on investments	(54,192)	(186,254)
(Increase) decrease in:		
Accounts receivable	(14,062)	4,889
Federal, state and local grants receivable	22,789	(24,420)
Contributions receivable	105,711	1,924
Prepaid expenses	9,645	(5,473)
Increase (decrease) in:		
Accounts payable	40,229	(2,939)
Accrued expenses and other	<u>20,973</u>	<u>24,005</u>
TOTAL ADJUSTMENTS	<u>210,488</u>	<u>(156,777)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>598,372</u>	<u>375,314</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(36,926)	(16,125)
Purchases of investments	(916,175)	(1,194,762)
Proceeds from sale of investments	<u>727,680</u>	<u>682,414</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(225,421)</u>	<u>(528,473)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	372,951	(153,159)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>413,171</u>	<u>566,330</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 786,122</u>	<u>\$ 413,171</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, 2010 AND 2009

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, 2010 and 2009.

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

DECEMBER 31, 2010 AND 2009

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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2010, have maturity dates ranging from April through August 2011.

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, 2010 and 2009, all contributions receivable were due within one year.

As of December 31, 2010 and 2009, 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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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 Organizations returns for years prior to fiscal year 2007 are closed.

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 results of operations previously reported.

Fair Value Measurements

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

Investments

Cash, money market funds and equity securities - These investments are valued at the closing price reported on the active market on which the individual securities are traded, and are classified within Level 1 of the valuation hierarchy.

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

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Investments (Continued)

Certificates of deposit, collateralized mortgage obligations, U. S. Government and agency securities, municipal bonds and corporate bonds - 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, 2010 and April 21, 2011, 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, 2010 AND 2009

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 45% (42% in 2009) 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 2010 (17% in 2009).

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, 2010, the Organization's depositor accounts exceeded FDIC insurance limits by approximately \$738,000 (\$441,000 at December 31, 2009).

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.

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Cash and money market funds	\$ 1,284,553	\$ 1,081,263
Certificates of deposit	537,710	470,717
Equity securities	941,932	969,755
Fixed income securities	<u>440,087</u>	<u>439,860</u>
	<u>\$ 3,204,282</u>	<u>\$ 2,961,595</u>

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

DECEMBER 31, 2010 AND 2009

NOTE 4 - INVESTMENTS (CONTINUED)

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

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 55,348	\$ 55,901
Realized losses on investments	(49,073)	(76,217)
Unrealized gains on investments	<u>103,265</u>	<u>262,471</u>
Total investment income	<u>\$ 109,540</u>	<u>\$ 242,155</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	479,582	479,582
Office furniture and computer equipment	<u>378,936</u>	<u>342,010</u>
	941,518	904,592
Less accumulated depreciation	<u>(621,659)</u>	<u>(542,264)</u>
	<u>\$ 319,859</u>	<u>\$ 362,328</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
		(Restated - Note 14)
Contributions and receivables - time restriction	\$ 490,307	\$ 518,990
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,510,987	1,537,720
Other	119,571	110,229
United Way receivable - time restriction	<u>66,660</u>	<u>64,085</u>
	<u>\$ 2,187,525</u>	<u>\$ 2,231,024</u>

NOTE 7 - DONATED SERVICES

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

	<u>2010</u>			<u>2009</u>		
	<u>Rate</u>	<u>Hours</u>	Value of Donated Services	<u>Rate</u>	<u>Hours</u>	Value of Donated Services
Attorneys	\$175 - \$225	10,309	\$2,226,613	\$150 - \$175	8,667	\$1,459,472
Paralegals	\$ 75	1,344	100,800	\$ 50	1,240	61,981
Law clerk/students	\$10 - \$14	5,403	62,334	\$10 - \$14	7,748	89,341
Other services			<u>35,452</u>			<u>39,227</u>
Total donated services			<u>\$2,425,199</u>			<u>\$1,650,021</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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, TALS Grier and TALS-SSI, 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, 2010 and 2009, these matches amounted to \$277,960 and \$350,315, respectively.

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 2010, the Organization received one distribution in the amount of \$4,500 (\$5,100 received in 2009). Total assets held in these funds amounted to \$122,754 and \$114,474 at December 31, 2010 and 2009, 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 \$174,939 in 2010 (\$167,570 in 2009).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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 \$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 October 2011.

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2010, follows:

For the year ending December 31,	Office Space			Equipment	
	Minimum Lease Commitments	Sublease Income	Net Lease Commitments	Minimum Lease Commitments	Total Net Lease Commitments
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>\$ 426,861</u>	<u>\$ 79,914</u>	<u>\$ 346,947</u>	<u>\$ 25,101</u>	<u>\$ 372,048</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Total rental expense recognized under all such agreements for the years ended December 31, 2010 amounted to approximately \$266,000 (\$288,000 in 2009), net of sublease income, for office space, and approximately \$52,000 for year ended December 31, 2010 (\$53,000 for 2009) for office equipment.

The Organization is self-insured for unemployment compensation. There was no unemployment compensation cost for the years ended December 31, 2010 and 2009.

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2010</u>	<u>2009</u>
Annual fundraising campaign	\$ 159,115	\$ 146,520
Recruiting volunteer attorneys	8,674	10,782
Obtaining other financial resources	<u>10,478</u>	<u>11,053</u>
	<u>\$ 178,267</u>	<u>\$ 168,355</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 13 - FAIR VALUE MEASUREMENTS

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

	2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<i>Investments:</i>				
Cash and money market funds	\$ 1,284,553	\$ -	\$ -	\$ 1,284,553
Certificates of deposit	-	537,710	-	537,710
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
	<u>\$ 2,226,485</u>	<u>\$ 977,797</u>	<u>\$ -</u>	<u>\$ 3,204,282</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 13 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<i>Investments:</i>				
Cash and money market funds	\$ 1,081,625	\$ -	\$ -	\$ 1,081,625
Certificates of deposit	-	470,356	-	470,356
Fixed income securities:				
US Government and agency securities	-	56,053	-	56,053
Municipal bonds	-	100,000	-	100,000
Collateralized mortgage obligations	-	24,344	-	24,344
Corporate bonds - domestic	-	259,463	-	259,463
Equity securities:				
Common stock - domestic				
Basic materials	103,013	-	-	103,013
Consumer and industrial goods	131,412	-	-	131,412
Financial	39,432	-	-	39,432
Healthcare	124,986	-	-	124,986
Services	213,576	-	-	213,576
Technology	93,792	-	-	93,792
Utilities	34,420	-	-	34,420
Other	36,312	-	-	36,312
Foreign Stock	75,255	-	-	75,255
Mutual Funds				-
International - large value	50,712	-	-	50,712
Small cap	16,416	-	-	16,416
Treasury fund	29,928	-	-	29,928
Diversified emerging markets	20,500	-	-	20,500
	<u>\$ 2,051,379</u>	<u>\$ 910,216</u>	<u>\$ -</u>	<u>\$ 2,961,595</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 14 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made, and the December 31, 2009 Statement of Activities has been restated, to properly report a foundation grant receivable and temporarily restricted net assets in the year the Organization received notification of the award.

The effects on the restatement were to (i) increase the Organization's contributions receivable and temporarily restricted net assets by \$242,326 and \$151,655, respectively, at December 31, 2008 and 2009; and (ii) to decrease temporarily restricted contribution revenue and change in net assets by \$90,671 for the year ended December 31, 2009.

A schedule of the effects of the restatement follows for the years ended December 31:

	2010		
	Unrestricted	Temporarily Restricted	Total
Balance - beginning of year, as previously reported	\$ 1,875,932	\$ 2,079,369	\$ 3,955,301
Prior period adjustment - to properly report a foundation grant receivable	-	151,655	151,655
Balance - beginning of year, as restated	1,875,932	2,231,024	4,106,956
Change in net assets	431,383	(43,499)	387,884
Balance - end of year	<u>\$ 2,307,315</u>	<u>\$ 2,187,525</u>	<u>\$ 4,494,840</u>
	2009		
	Unrestricted	Temporarily Restricted	Total
Balance - beginning of year, as previously reported	\$ 1,239,174	\$ 2,093,365	\$ 3,332,539
Prior period adjustment - to properly report a foundation grant receivable	-	242,326	242,326
Balance - beginning of year, as restated	1,239,174	2,335,691	3,574,865
Change in net assets	636,758	(104,667)	532,091
Balance - end of year	<u>\$ 1,875,932</u>	<u>\$ 2,231,024</u>	<u>\$ 4,106,956</u>

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

<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 12/31/2009</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2010</u>
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1)	N/A	1/01/10 - 12/31/10	\$ 2,979,591	\$ 2,979,591	\$ 2,979,591	\$ -	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	2,979,591	2,979,591	-	-
<u>US DEPARTMENT OF AGRICULTURE</u>									
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:</u>									
Food Stamp Education Program	10.561	GR-05-16735-07	12/01/04 - 9/30/09	\$ 123,203	5,277	5,277	-	-	-
Food Stamp Education Program	10.561	GR-10-29680-00	10/01/09 - 9/30/10	\$ 61,602	14,354	14,354	-	-	-
Food Stamp Education Program	10.561	GR-10-29680-00	10/01/10 - 9/30/11	\$ 73,648	-	21,900	26,759	-	4,859
<u>TOTAL US DEPARTMENT OF AGRICULTURE</u>					19,631	41,531	26,759	-	4,859
<u>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
<u>PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:</u>									
Housing Counseling Assistance Program	14.169	N/A	10/01/09 - 9/30/10	\$ 50,000	26,063	50,000	23,937	-	-
Housing Counseling Assistance Program	14.169	N/A	10/01/10 - 9/30/11	\$ 50,000	-	-	17,483	-	17,483
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G08048	3/01/09 - 2/28/10	\$ 38,906	9,839	9,694	3,888	(145)	3,888
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G08048	3/01/10 - 2/28/11	\$ 38,906	-	-	11,794	-	11,794
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					35,902	59,694	57,102	(145)	33,165
<u>TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					35,902	59,694	57,102	(145)	33,165
<u>US DEPARTMENT OF JUSTICE</u>									
<u>PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:</u>									
STOP Violence Against Women (Nashville)	16.588	4205	7/01/09 - 6/30/12	\$ 67,308	2,259	21,910	21,338	-	1,687
STOP Violence Against Women (Tulahoma and Columbia)	16.588	4158	7/01/09 - 6/30/12	\$ 146,217	4,014	45,563	44,708	-	3,159
Victims of Crime Act (VOCA) (Clarksville)	16.575	3968	7/01/09 - 6/30/12	\$ 177,801	4,700	56,191	56,539	-	5,048
Victims of Crime Act (VOCA) (Nashville)	16.575	3970	7/01/09 - 6/30/12	\$ 174,309	5,402	56,616	55,747	-	4,533
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	3969	7/01/09 - 6/30/12	\$ 157,467	4,722	52,855	52,406	-	4,273
ARRA - Byrne Justice Assistance Grant (Murfreesboro)	16.803 - ARRA	3516	7/01/09 - 6/30/11	\$ 56,000	2,348	27,929	27,914	-	2,333
ARRA - Byrne Justice Assistance Grant (Murfreesboro)	16.803 - ARRA	3554	7/01/09 - 6/30/11	\$ 56,000	2,409	27,999	27,999	-	2,409
ARRA - STOP Violence Against Women (Columbia)	16.588 - ARRA	3786	7/01/09 - 6/30/11	\$ 57,110	3,149	35,222	34,669	-	2,596
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>					29,003	324,285	321,320	-	26,038

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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, 2010

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2009	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2010
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	\$ 21,962	\$ 231,743	\$ 230,546	\$ -	\$ 20,765
TOTAL US DEPARTMENT OF JUSTICE					50,965	556,028	551,866	-	46,803
US DEPARTMENT OF THE TREASURY									
Low-Income Taxpayer Clinic Grant Program	21.008	2009137	1/01/09 - 12/31/09	\$ 92,927	41,240	41,240	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	2010135	1/01/10 - 12/31/10	\$ 94,494	-	66,381	96,494	-	30,113
TOTAL US DEPARTMENT OF THE TREASURY					41,240	107,621	96,494	-	30,113
US DEPARTMENT OF HEALTH AND HUMAN SERVICES									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2010-07	7/01/09 - 6/30/10	\$ 40,800	16,412	16,412	-	-	-
Legal Assistance - Title III Priority	93.044	2011-07	7/01/10 - 6/30/11	\$ 40,800	-	13,878	20,100	-	6,222
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					16,412	30,290	20,100	-	6,222
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY									
Legal Assistance - Title III Priority	93.044	N/A	7/01/09 - 6/30/10	\$ 36,500	11,514	39,000	27,486	-	-
Legal Assistance - Title III Priority	93.044	N/A	7/01/10 - 6/30/11	\$ 36,500	-	-	-	-	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY					11,514	39,000	27,486	-	-

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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, 2010

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2009	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2010
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/09 - 6/30/10	\$ 131,200	\$ 42,529	\$ 80,586	\$ 64,495	\$ -	\$ 26,438
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/10 - 6/30/11	\$ 131,200	-	24,081	78,872	-	54,791
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES					42,529	104,667	143,367	-	81,229
TOTAL US DEPARTMENT OF HEALTH AND HUMAN SERVICES					70,455	173,957	190,953	-	87,451
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 218,193	\$ 3,918,422	\$ 3,902,765	\$ (145)	\$ 202,391

Summary of expenditures by CFDA number

09.643040	\$ 2,979,591
10.561	26,759
14.169	41,420
14.408	15,682
16.013	230,546
16.575	164,692
16.588	66,046
16.588 - ARRA	34,669
16.803 - ARRA	55,913
21.008	96,494
93.044	47,586
93.558	143,367
Total	\$ 3,902,765

(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, 2010

	Basic Field Grant	Private Attorney Involvement	Total
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,778,976	\$ 200,615	\$ 2,979,591
Contributions and foundation grants	23,594	190,189	213,783
Donated services	-	2,425,199	2,425,199
Total support and revenue	<u>2,802,570</u>	<u>2,816,003</u>	<u>5,618,573</u>
PERSONNEL EXPENSES			
Lawyers	679,532	122,147	801,679
Paralegals	117,702	111,450	229,152
Support staff	565,647	40,449	606,096
Employee benefits	484,883	33,530	518,413
Payroll taxes	92,633	20,780	113,413
Total personnel expenses	<u>1,940,397</u>	<u>328,356</u>	<u>2,268,753</u>
OTHER EXPENSES			
Donated services	-	2,425,199	2,425,199
Court costs and litigation	48,675	4,589	53,264
Dues and fees	2,340	687	3,027
Equipment rental and maintenance	51,033	1,600	52,633
Insurance	35,107	1,500	36,607
Occupancy	267,316	12,398	279,714
Postage	28,185	3,214	31,399
Printing and publications	66,047	2,641	68,688
Professional fees and contract services	86,061	26,787	112,848
Supplies	57,166	3,600	60,766
Telephone	61,422	2,536	63,958
Training	26,023	1,860	27,883
Travel	117,068	1,036	118,104
Total other expenses	<u>846,443</u>	<u>2,487,647</u>	<u>3,334,090</u>
TOTAL EXPENSES	<u>2,786,840</u>	<u>2,816,003</u>	<u>5,602,843</u>
SUPPORT AND REVENUE OVER EXPENSES	15,730	-	15,730
OTHER CHANGES IN NET ASSETS			
Acquisition of equipment	<u>(15,730)</u>	<u>-</u>	<u>(15,730)</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 Cumberlands
Nashville, Tennessee

We have audited the financial statements of Legal Aid Society of Middle Tennessee and the Cumberlands (the "Organization") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 21, 2011. 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 Cumberlands' 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 21, 2011.

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, appearing to read "Francis P. L. C.", with a stylized flourish at the beginning.

Nashville, Tennessee

April 21, 2011

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 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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 are 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 and the LSC Audit Guide and Compliance Supplement. Those standards, OMB Circular A-133 and the LSC Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Legal Aid Society of Middle Tennessee and the Cumberland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Legal Aid Society of Middle Tennessee and the Cumberland's compliance with those requirements.

In our opinion, Legal Aid Society of Middle Tennessee and the Cumberlandds complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Legal Aid Society of Middle Tennessee and the Cumberlandds is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Legal Aid Society of Middle Tennessee and the Cumberlandds' internal control over compliance with 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.



Nashville, Tennessee
April 21, 2011

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2010

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? _____ 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