

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2012 AND 2011

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Legal Aid Society of Middle Tennessee and the Cumberlands (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Cumberlandns as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Additional Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and schedule of support, revenue, expenses and changes in net assets for LSC funds, as required by U. S. Office of Management and Budget *Circular A-133* and the Legal Services Corporation ("LSC") *Audit Guide* are presented for purposes of additional analysis and are not a required part of the 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 audit 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2013 on our consideration of Legal Aid Society of Middle Tennessee and the Cumberlandns' internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Aid Society of Middle Tennessee and the Cumberlandns' internal control over financial reporting and compliance.



Nashville, Tennessee
April 22, 2013

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash	\$ 841,054	\$ 665,892
Investments	3,648,135	3,515,504
Accounts receivable	18,734	23,827
Federal, state and local grants receivable	112,504	222,915
Contributions receivable	495,692	496,051
Prepaid expenses	80,504	74,243
Property and equipment, net	253,459	307,530
Client escrow funds	<u>29,723</u>	<u>7,048</u>
 TOTAL ASSETS	 <u>\$ 5,479,805</u>	 <u>\$ 5,313,010</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 30,656	\$ 53,088
Accrued expenses and other	372,837	564,805
Client escrow deposits	<u>29,723</u>	<u>7,048</u>
 TOTAL LIABILITIES	 <u>433,216</u>	 <u>624,941</u>
 NET ASSETS		
Unrestricted:		
Undesignated	2,709,032	2,276,839
Designated for property and equipment	<u>253,459</u>	<u>307,530</u>
 Total unrestricted	 2,962,491	 2,584,369
 Temporarily restricted	 <u>2,084,098</u>	 <u>2,103,700</u>
 TOTAL NET ASSETS	 <u>5,046,589</u>	 <u>4,688,069</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,479,805</u>	 <u>\$ 5,313,010</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, 2012 AND 2011

	2012				
	UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
		LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,437,676	\$ 1,962,822	\$ 4,400,498	\$ 4,400,498
Contributions and foundation grants	60,197	617,239	655,383	1,272,622	1,332,819
Investment income, net	165,775	-	-	-	165,775
Attorney fees	5,803	-	-	-	5,803
Legal settlement appropriation	266,360	-	-	-	266,360
Miscellaneous income	9,284	-	-	-	9,284
Donated services	-	3,005,896	-	3,005,896	3,005,896
Net assets released from restrictions	8,698,618	(6,060,811)	(2,637,807)	(8,698,618)	-
TOTAL REVENUES AND SUPPORT	9,206,037	-	(19,602)	(19,602)	9,186,435
OPERATING EXPENSES					
Program services	7,812,678	-	-	-	7,812,678
Supporting services:					
Management and general	853,465	-	-	-	853,465
Fundraising	161,772	-	-	-	161,772
TOTAL OPERATING EXPENSES	8,827,915	-	-	-	8,827,915
INCREASE (DECREASE) IN NET ASSETS	378,122	-	(19,602)	(19,602)	358,520
NET ASSETS - BEGINNING OF YEAR	2,584,369	-	2,103,700	2,103,700	4,688,069
NET ASSETS - END OF YEAR	\$ 2,962,491	\$ -	\$ 2,084,098	\$ 2,084,098	\$ 5,046,589

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

2011

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,856,421	\$ 2,224,881	\$ 5,081,302	\$ 5,081,302
217,679	475,436	787,994	1,263,430	1,481,109
48,688	-	-	-	48,688
62,446	89,054	-	89,054	151,500
-	-	-	-	-
500	-	-	-	500
-	2,940,475	-	2,940,475	2,940,475
9,458,086	(6,361,386)	(3,096,700)	(9,458,086)	-
9,787,399	-	(83,825)	(83,825)	9,703,574
8,389,647	-	-	-	8,389,647
937,855	-	-	-	937,855
182,843	-	-	-	182,843
9,510,345	-	-	-	9,510,345
277,054	-	(83,825)	(83,825)	193,229
2,307,315	-	2,187,525	2,187,525	4,494,840
\$ 2,584,369	\$ -	\$ 2,103,700	\$ 2,103,700	\$ 4,688,069

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 1,909,052	\$ 146,501	\$ 15,346	\$ 2,070,899
Paralegals	483,366	-	-	483,366
Support staff	825,930	264,929	56,763	1,147,622
Employee benefits	464,533	50,562	5,237	520,332
Payroll taxes	234,691	30,221	5,357	270,269
TOTAL PERSONNEL EXPENSES	<u>3,917,572</u>	<u>492,213</u>	<u>82,703</u>	<u>4,492,488</u>
OTHER EXPENSES				
Donated services	3,005,896	-	-	3,005,896
Court costs and litigation	86,890	-	-	86,890
Depreciation	82,394	-	-	82,394
Dues and fees	13,557	9,719	-	23,276
Equipment rental and maintenance	40,099	20,260	466	60,825
Insurance	10,359	11,746	31	22,136
Occupancy	243,596	89,896	3,450	336,942
Postage	24,445	9,690	6,528	40,663
Printing and publications	87,028	13,733	14,573	115,334
Professional fees and contract services	99,312	128,667	38,995	266,974
Supplies	43,427	25,051	11,306	79,784
Telephone	53,660	26,907	789	81,356
Training	28,495	2,827	1,666	32,988
Travel	75,948	22,756	1,265	99,969
TOTAL OTHER EXPENSES	<u>3,895,106</u>	<u>361,252</u>	<u>79,069</u>	<u>4,335,427</u>
TOTAL EXPENSES	<u>\$ 7,812,678</u>	<u>\$ 853,465</u>	<u>\$ 161,772</u>	<u>\$ 8,827,915</u>

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

2011

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 2,047,251	\$ 159,464	\$ 12,665	\$ 2,219,380
446,930	-	-	446,930
963,081	293,650	63,239	1,319,970
661,255	78,469	9,855	749,579
244,593	24,009	5,380	273,982
<u>4,363,110</u>	<u>555,592</u>	<u>91,139</u>	<u>5,009,841</u>
2,940,475	-	-	2,940,475
180,726	-	-	180,726
74,259	-	-	74,259
14,350	3,380	-	17,730
50,086	26,352	433	76,871
15,652	17,475	-	33,127
235,575	111,395	5,034	352,004
27,079	6,544	8,326	41,949
99,664	7,923	21,906	129,493
136,095	125,428	44,544	306,067
50,173	28,932	8,779	87,884
56,284	30,869	986	88,139
27,292	4,030	415	31,737
118,827	19,935	1,281	140,043
<u>4,026,537</u>	<u>382,263</u>	<u>91,704</u>	<u>4,500,504</u>
<u>\$ 8,389,647</u>	<u>\$ 937,855</u>	<u>\$ 182,843</u>	<u>\$ 9,510,345</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 358,520	\$ 193,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	82,394	74,259
Donations of property and equipment	-	(50,370)
Realized and unrealized gains on investments	(113,899)	(528)
(Increase) decrease in:		
Accounts receivable	5,093	(850)
Federal, state and local grants receivable	110,411	46,960
Contributions receivable	359	(21,157)
Prepaid expenses	(6,261)	(60,095)
Increase (decrease) in:		
Accounts payable	(22,432)	(2,673)
Accrued expenses and other	(191,968)	23,249
TOTAL ADJUSTMENTS	(136,303)	8,795
NET CASH PROVIDED BY OPERATING ACTIVITIES	222,217	202,024
INVESTING ACTIVITIES		
Purchases of property and equipment	(28,323)	(11,560)
Purchases of investments	(324,065)	(660,182)
Proceeds from sale of investments	305,333	349,488
NET CASH USED IN INVESTING ACTIVITIES	(47,055)	(322,254)
NET INCREASE (DECREASE) IN CASH	175,162	(120,230)
CASH - BEGINNING OF YEAR	665,892	786,122
CASH - END OF YEAR	\$ 841,054	\$ 665,892

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, 2012 AND 2011

NOTE 1 - NATURE OF ACTIVITIES

Legal Aid Society of Middle Tennessee and the Cumberlandds (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 Cumberlandds.

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, 2012 and 2011.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

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 in which 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.

Investments

Investments consist of certificates of deposit, equity securities, fixed income securities, cash 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

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 and fixed income securities - 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011, all contributions receivable were due within one year.

As of December 31, 2012 and 2011, 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 of 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.

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.

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

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

DECEMBER 31, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2009 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 with the current year presentation. The reclassifications have no effect on changes in net assets as previously presented; however, management and general supporting services expenses have been reduced by \$11,517 in investment management fees now presented as a reduction of investment income.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2012 and April 22, 2013, 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
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, various grants, contributions receivable and revenue 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. The Organization's cash balance may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

Contributions receivable consist of corporate contribution pledges, along with United Way receivables. Pledges and receivables from three contributors approximated 47% of total contributions receivable as of December 31, 2012 (53% in 2011). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization receives approximately 39% (42% in 2011) of its revenues, excluding donated services, from Legal Services Corporation. Revenue from one other source was approximately 17% of its revenues, excluding donated services, in 2012 (16% in 2011).

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, 2012 AND 2011

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Cash and money market funds	\$ 1,667,285	\$ 1,251,240
Certificates of deposit	513,031	911,472
Equity securities	993,873	895,134
Fixed income securities	<u>473,946</u>	<u>457,658</u>
	<u>\$ 3,648,135</u>	<u>\$ 3,515,504</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 63,141	\$ 59,677
Realized gains (losses) on investments	(1,058)	58
Unrealized gains on investments	114,957	470
Less: investment management fees	<u>(11,265)</u>	<u>(11,517)</u>
Net investment income	<u>\$ 165,775</u>	<u>\$ 48,688</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 5 - FAIR VALUE MEASUREMENTS

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

	2012			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 473,946	\$ -	\$ 473,946
Equity securities:				
Common stock - domestic				
Basic materials	91,841	-	-	91,841
Consumer and industrial goods	160,895	-	-	160,895
Financial	53,820	-	-	53,820
Healthcare	121,358	-	-	121,358
Services	271,851	-	-	271,851
Technology	52,158	-	-	52,158
Utilities	42,491	-	-	42,491
Other	37,782	-	-	37,782
Foreign stock	56,309	-	-	56,309
Mutual funds				
International - large value	48,540	-	-	48,540
Small cap	23,430	-	-	23,430
Diversified emerging markets	33,398	-	-	33,398
<i>Total investments at fair value</i>	<u>\$ 993,873</u>	<u>\$ 473,946</u>	<u>\$ -</u>	<u>\$ 1,467,819</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	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, 2012 AND 2011

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	461,992	479,582
Office furniture and computer equipment	<u>411,544</u>	<u>440,866</u>
	956,536	1,003,448
Less accumulated depreciation	<u>(703,077)</u>	<u>(695,918)</u>
	<u>\$ 253,459</u>	<u>\$ 307,530</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, 2012, the Organization had paid approximately \$78,000 toward this purchase, which is reported in prepaid expenses on the Statements of Financial Position. The Organization obtained \$104,000 in temporarily restricted foundation grants to be used for this purchase, and approximately \$35,000 of unspent funds is included in temporarily restricted net assets at December 31, 2012. The software is expected to be placed into service in the fall of 2013.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Contributions and receivables - time restriction	\$ 520,881	\$ 513,928
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
Other	64,009	92,168
United Way receivable - time restriction	<u>69,009</u>	<u>67,405</u>
	<u>\$ 2,084,098</u>	<u>\$ 2,103,700</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 8 - DONATED SERVICES

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

	2012			2011		
	Rate	Hours	Value of Donated Services	Rate	Hours	Value of Donated Services
Attorneys	\$175 - \$225	12,831	\$2,758,042	\$175 - \$225	13,204	\$2,756,050
Paralegals	\$ 75	1,804	135,300	\$ 75	960	72,000
Law clerk/students	\$10 - \$14	5,987	83,821	\$10 - \$14	7,625	86,691
Other services			<u>28,733</u>			<u>25,734</u>
Total donated services			<u>\$3,005,896</u>			<u>\$2,940,475</u>

NOTE 9 - LEGAL SETTLEMENT APPROPRIATION

During 2012, the Organization was awarded approximately \$266,000 in an appropriation from the Tennessee Attorney General as a result of a national mortgage class action lawsuit settlement for the purpose of training, education and legal services relating to housing and foreclosure matters.

NOTE 10 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from \$650 to \$4,300 through 2016 (excluding the Nashville office lease).

The Organization's Nashville office is leased under a non-cancelable operating lease that was extended on December 31, 2012 for an additional five years. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. 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. Through December 31, 2012, the Organization subleased 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 10 - LEASES (CONTINUED)

The Organization also leases certain office equipment under a non-cancelable operating lease expiring in September 2016.

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2012, follows:

For the year ending December 31,	Office Space	Equipment	Total Lease Commitments
	Minimum Lease Commitments	Minimum Lease Commitments	
2013	\$ 194,760	\$ 26,999	\$ 221,759
2014	250,996	26,999	277,995
2015	253,995	26,999	280,994
2016	202,599	20,249	222,848
2017	173,990	-	173,990
	<u>\$ 1,076,340</u>	<u>\$ 101,246</u>	<u>\$ 1,177,586</u>

Total rental expense recognized under all such agreements for the years ended December 31, 2012 amounted to approximately \$300,000 (\$274,000 in 2011), net of sublease income, for office space, and approximately \$44,000 for year ended December 31, 2012 (\$50,000 for 2011) for office equipment.

NOTE 11 - 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. There were no contributions by the Organization on behalf of the employees for 2012. Total retirement plan contribution expense of the Organization amounted to \$180,994 in 2011.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2012</u>	<u>2011</u>
Annual fundraising campaign	\$ 143,408	\$ 149,274
Recruiting volunteer attorneys	5,760	19,339
Obtaining other financial resources	<u>12,604</u>	<u>14,230</u>
	<u>\$ 161,772</u>	<u>\$ 182,843</u>

NOTE 13 - 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 and SSI Representation), 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 Grants and TALS Grier and SSI Representation grants, 20% of the VOCA Grant, 25% of the STOP Grant, and 50% of the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2012 and 2011, these matches amounted to \$175,218 and \$243,827, respectively.

NOTE 14 - 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 2012, one endowment fund received approximately \$680,000 in contributions from an estate bequest. The Organization received one distribution in the amount of \$5,100 in the year ended December 31, 2012 (\$4,900 received in 2011). Total assets held in these funds amounted to \$821,780 and \$126,575 at December 31, 2012 and 2011, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2011	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2012	
<u>LEGAL SERVICES CORPORATION</u>										
Basic Field Grant	09.643040	(1)	N/A	1/01/12 - 12/31/12	\$ 2,437,676	\$ -	\$ 2,437,676	\$ 2,437,676	\$ -	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	2,437,676	2,437,676	-	-	
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>										
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:										
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G08048	3/01/10 - 2/28/11	\$ 38,906	43	41	-	(2)	-	
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G08048	3/01/11 - 2/28/12	\$ 38,906	5,447	6,074	2,041	-	1,414	
Fair Housing Initiatives Program - Private Enforcement	14.408	FH700G11029	1/01/12 - 12/31/12	\$ 38,906	-	-	12,852	-	12,852	
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					5,490	6,115	14,893	(2)	14,266	
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					5,490	6,115	14,893	(2)	14,266	
<u>U.S. DEPARTMENT OF JUSTICE</u>										
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:										
Victims of Crime Act (VOCA) (Clarksville)	16.575	3968	7/01/09 - 6/30/12	\$ 177,801	5,164	34,046	28,882	-	-	
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	3969	7/01/09 - 6/30/12	\$ 157,467	4,039	28,956	24,917	-	-	
Victims of Crime Act (VOCA) (Nashville)	16.575	3970	7/01/09 - 6/30/12	\$ 174,309	4,513	34,020	29,507	-	-	
Victims of Crime Act (VOCA)	16.575	19099	7/01/12 - 6/30/15	\$ 509,577	-	65,128	78,407	-	13,279	
STOP Violence Against Women (Tullahoma and Columbia)	16.588	4158	7/01/09 - 6/30/12	\$ 146,217	4,306	28,598	24,292	-	-	
STOP Violence Against Women (Nashville)	16.588	4205	7/01/09 - 6/30/12	\$ 67,308	1,523	14,032	12,509	-	-	
STOP Violence Against Women	16.588	19134	7/01/12 - 6/30/15	\$ 213,525	-	26,892	32,312	-	5,420	
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>					19,545	231,672	230,826	-	18,699	

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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, 2012

<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 12/31/2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2012</u>
PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN									
Legal Assistance for Victims Program	16.013	2008-WL-AX-0021	10/01/08 - 9/30/15	\$ 1,450,000	\$ 18,668	\$ 215,945	\$ 211,308	\$ -	\$ 14,031
TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN					<u>18,668</u>	<u>215,945</u>	<u>211,308</u>	<u>-</u>	<u>14,031</u>
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>					<u>38,213</u>	<u>447,617</u>	<u>442,134</u>	<u>-</u>	<u>32,730</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	11LITC0138	1/01/11 - 12/31/11	\$ 95,000	8,371	8,371	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	12LITC0138	1/01/12 - 12/31/12	\$ 100,000	-	<u>92,150</u>	<u>100,000</u>	-	<u>7,850</u>
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>					<u>8,371</u>	<u>100,521</u>	<u>100,000</u>	<u>-</u>	<u>7,850</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2010-07	7/01/11 - 6/30/12	\$ 40,800	6,705	27,327	20,596	26	-
Legal Assistance - Title III Priority	93.044	2013-07	7/01/12 - 6/30/13	\$ 40,800	-	<u>13,575</u>	<u>20,464</u>	-	<u>6,889</u>
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL					<u>6,705</u>	<u>40,902</u>	<u>41,060</u>	<u>26</u>	<u>6,889</u>
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY									
Legal Assistance - Title III Priority	93.044	N/A	7/01/11 - 6/30/12	\$ 36,500	-	18,300	18,300	-	-
Legal Assistance - Title III Priority	93.044	N/A	7/01/12 - 6/30/13	\$ 36,500	-	<u>15,000</u>	<u>15,000</u>	-	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY					<u>-</u>	<u>33,300</u>	<u>33,300</u>	<u>-</u>	<u>-</u>

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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, 2012

<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 12/31/2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Other</u>	<u>Accrued (Deferred) Revenue 12/31/2012</u>
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES									
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/10 - 6/30/11	N/A	\$ 72,622	\$ 73,183	\$ -	\$ 561	\$ -
Temporary Assistance for Needy Families - SSI Representation	93.558	N/A	7/01/11 - 6/30/12	N/A	43,543	43,534	-	(9)	-
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/12 - 6/30/13	N/A	-	35,497	63,417	-	27,920
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES					116,165	152,214	63,417	552	27,920
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					122,870	226,416	137,777	578	34,809
TOTAL OF EXPENDITURES OF FEDERAL AWARDS					\$ 174,944	\$ 3,218,345	\$ 3,132,480	\$ 576	\$ 89,655

Summary of expenditures by CFDA number

09.643040	\$ 2,437,676
14.408	14,893
16.013	211,308
16.575	161,713
16.588	69,113
21.008	100,000
93.044	74,360
93.558	63,417

Total \$ 3,132,480

(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, 2012

	<u>Basic Field Grant</u>	<u>Private Attorney Involvement</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,278,854	\$ 158,822	\$ 2,437,676
Contributions and foundation grants	434,538	182,701	617,239
Donated services	-	3,005,896	3,005,896
Total support and revenue	<u>2,713,392</u>	<u>3,347,419</u>	<u>6,060,811</u>
PERSONNEL EXPENSES			
Lawyers	865,061	140,373	1,005,434
Paralegals	138,874	40,272	179,146
Support staff	608,338	61,316	669,654
Employee benefits	244,191	22,869	267,060
Payroll taxes	115,466	18,202	133,668
Total personnel expenses	<u>1,971,930</u>	<u>283,032</u>	<u>2,254,962</u>
OTHER EXPENSES			
Donated services	-	3,005,896	3,005,896
Court costs and litigation	69,892	3,440	73,332
Dues and fees	1,318	1,004	2,322
Equipment rental and maintenance	43,127	1,600	44,727
Insurance	15,527	1,500	17,027
Occupancy	236,077	12,500	248,577
Postage	17,108	3,200	20,308
Printing and publications	70,496	2,253	72,749
Professional fees and contract services	103,050	24,238	127,288
Supplies	38,030	3,640	41,670
Telephone	64,112	3,622	67,734
Training	20,267	885	21,152
Travel	62,458	609	63,067
Total other expenses	<u>741,462</u>	<u>3,064,387</u>	<u>3,805,849</u>
TOTAL EXPENSES	<u>2,713,392</u>	<u>3,347,419</u>	<u>6,060,811</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 AUDITOR'S 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, 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, the financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

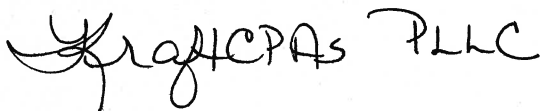
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kragh CPAs PLLC". The signature is stylized, with the first letters of each word being capitalized and prominent.

Nashville, Tennessee
April 22, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

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 U.S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the Legal Services Corporation (LSC) *Audit Guide* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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*. 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 the Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Legal Aid Society of Middle Tennessee and the Cumberlands complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

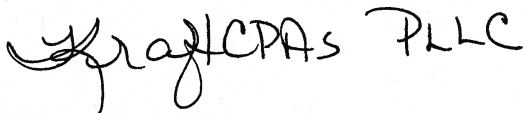
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the LSC *Audit Guide*, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the LSC *Audit Guide*. Accordingly, this report is not suitable for any other purpose.



Nashville, Tennessee
April 22, 2013

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's 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 auditor's 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, 2012

Section II - Financial Statement Findings

Prior Year - None reported

Current Year - None reported

Section III - Federal Award Findings and Questioned Costs

Prior Year:

2011-1 Internal Control Over Accounting for Attorney Fees Received

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

Status: Corrected in 2012.

Current year - None reported