

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2006 AND 2005

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2006 AND 2005

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 16
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards	17 - 19
Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds	20
 <u>OTHER REPORTS</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Legal Services Corporation Audit Guide and Compliance Supplement	23 - 24
Schedule of Findings and Questioned Costs	25 - 27



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INDEPENDENT AUDITORS' REPORT

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

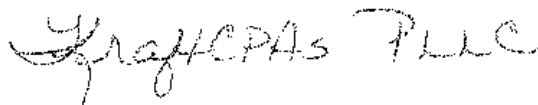
We have audited the accompanying statements of financial position of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization") as of December 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid Society of Middle Tennessee and the Cumberland as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007, on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

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

Nashville, Tennessee
April 24, 2007

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 835,328	\$ 790,718
Investments - Note 4	2,099,864	454,184
Accounts receivable	40,890	104,429
Grants receivable	100,930	113,200
Contributions receivable - Note 6	288,260	200,685
Prepaid expenses	3,766	22,341
Property and equipment, net - Note 5	438,521	452,692
Client escrow funds	<u>8,738</u>	<u>14,038</u>
 TOTAL ASSETS	 <u>\$ 3,816,297</u>	 <u>\$ 2,152,287</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 40,963	\$ 14,179
Accrued expenses	478,097	448,711
Client escrow deposits	8,738	14,038
Deferred revenue	<u>4,572</u>	<u>2,724</u>
 TOTAL LIABILITIES	 <u>532,370</u>	 <u>479,652</u>
 COMMITMENTS AND CONTINGENCIES - Note 10		
<u>NET ASSETS</u>		
Unrestricted:		
Undesignated	876,279	923,354
Designated for property and equipment	<u>438,521</u>	<u>452,692</u>
Total unrestricted	1,314,800	1,376,046
Temporarily restricted - Note 6	<u>1,969,127</u>	<u>296,589</u>
Total net assets	<u>3,283,927</u>	<u>1,672,635</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 3,816,297</u>	 <u>\$ 2,152,287</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, 2006 AND 2005

	2006				TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED		TOTAL	
	LSC	NON-LSC			TOTAL
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 2,326,420	\$ 1,862,663	\$ 4,189,083	\$ 4,189,083
Contributions and foundation grants	164,170	534,914	2,028,383	2,563,297	2,727,467
Investment income - Note 4	127,964	-	-	-	127,964
Miscellaneous income	31,574	-	-	-	31,574
Donated services - Note 7	-	1,465,296	-	1,465,296	1,465,296
Net assets released from restrictions	6,545,138	(4,326,630)	(2,218,508)	(6,545,138)	-
TOTAL REVENUES AND SUPPORT	6,868,846	-	1,672,538	1,672,538	8,541,384
OPERATING EXPENSES					
Program services	6,243,419	-	-	-	6,243,419
Supporting services:					
Management and general	591,628	-	-	-	591,628
Fundraising - Note 12	95,045	-	-	-	95,045
TOTAL OPERATING EXPENSES	6,930,092	-	-	-	6,930,092
INCREASE (DECREASE) IN NET ASSETS	(61,246)	-	1,672,538	1,672,538	1,611,292
NET ASSETS - BEGINNING OF YEAR	1,376,046	-	296,589	296,589	1,672,635
NET ASSETS - END OF YEAR	\$ 1,314,800	\$ -	\$ 1,969,127	\$ 1,969,127	\$ 3,283,927

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

2005

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 2,356,518	\$ 1,913,154	\$ 4,269,672	\$ 4,269,672
112,990	423,459	324,507	747,966	860,956
19,046	-	-	-	19,046
31,418	-	-	-	31,418
-	1,123,164	-	1,123,164	1,123,164
<u>6,263,221</u>	<u>(3,903,141)</u>	<u>(2,360,080)</u>	<u>(6,263,221)</u>	<u>-</u>
<u>6,426,675</u>	<u>-</u>	<u>(122,419)</u>	<u>(122,419)</u>	<u>6,304,256</u>
5,678,235	-	-	-	5,678,235
574,362	-	-	-	574,362
<u>94,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94,825</u>
<u>6,347,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,347,422</u>
79,253	-	(122,419)	(122,419)	(43,166)
<u>1,296,793</u>	<u>-</u>	<u>419,008</u>	<u>419,008</u>	<u>1,715,801</u>
<u>\$ 1,376,046</u>	<u>\$ -</u>	<u>\$ 296,589</u>	<u>\$ 296,589</u>	<u>\$ 1,672,635</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006			TOTAL
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	
			(See Note 12)	
PERSONNEL EXPENSES				
Lawyers	\$ 1,673,104	\$ 103,293	\$ 40,614	\$ 1,817,011
Paralegals	423,263	-	1,373	424,636
Support staff	906,699	198,639	20,054	1,125,392
Employee benefits - Note 11	530,182	39,001	5,757	574,940
Payroll taxes	219,935	22,556	4,653	247,144
TOTAL PERSONNEL EXPENSES	<u>3,753,183</u>	<u>363,489</u>	<u>72,451</u>	<u>4,189,123</u>
OTHER EXPENSES				
Donated services - Note 7	1,465,296	-	-	1,465,296
Court costs and litigation	114,402	22	-	114,424
Depreciation	57,691	-	-	57,691
Dues and fees	32,944	3,392	500	36,836
Equipment rental and maintenance - Note 10	39,717	14,563	763	55,043
Insurance	36,403	6,265	11	42,679
Occupancy - Note 10	304,557	40,787	4,386	349,730
Postage	29,251	6,118	6,935	42,304
Printing and publications	71,919	1,912	1,328	75,159
Professional fees and contract services	76,477	94,671	1,151	172,299
Supplies	69,236	30,488	5,999	105,723
Telephone	68,567	22,797	86	91,450
Training	22,482	349	966	23,797
Travel	101,294	6,775	469	108,538
TOTAL OTHER EXPENSES	<u>2,490,236</u>	<u>228,139</u>	<u>22,594</u>	<u>2,740,969</u>
TOTAL EXPENSES	<u>\$ 6,243,419</u>	<u>\$ 591,628</u>	<u>\$ 95,045</u>	<u>\$ 6,930,092</u>

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

2005

PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING (See Note 12)	TOTAL
\$ 1,593,051	\$ 91,686	\$ 36,882	\$ 1,721,619
410,176	-	6,384	416,560
923,782	224,975	17,650	1,166,407
501,764	39,606	5,178	546,548
214,275	23,560	4,588	242,423
<u>3,643,048</u>	<u>379,827</u>	<u>70,682</u>	<u>4,093,557</u>
1,123,164	-	-	1,123,164
57,090	-	-	57,090
52,897	-	-	52,897
17,809	2,406	275	20,490
47,870	12,188	196	60,254
37,734	4,775	123	42,632
276,475	37,292	4,264	318,031
31,777	2,463	3,750	37,990
56,611	3,207	4,969	64,787
73,119	69,722	2,798	145,639
60,183	27,820	7,696	95,699
82,343	23,383	72	105,798
37,397	6,553	-	43,950
80,718	4,726	-	85,444
<u>2,035,187</u>	<u>194,535</u>	<u>24,143</u>	<u>2,253,865</u>
<u>\$ 5,678,235</u>	<u>\$ 574,362</u>	<u>\$ 94,825</u>	<u>\$ 6,347,422</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,611,292	\$ (43,166)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	57,691	52,897
Unrealized gains on investments	(51,475)	-
(Increase) decrease in:		
Accounts receivable	63,539	(50,319)
Grants receivable	12,270	285,436
Contributions receivable	(87,575)	80,296
Prepaid expenses	18,575	9,324
Increase (decrease) in:		
Accounts payable	26,784	(31,413)
Accrued expenses	29,386	21,636
Deferred revenue	1,848	(5,697)
TOTAL ADJUSTMENTS	<u>71,043</u>	<u>362,160</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,682,335</u>	<u>318,994</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(43,520)	(29,135)
Purchases of investments	(3,071,462)	(353,247)
Proceeds from sale of investments	<u>1,477,257</u>	<u>347,488</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,637,725)</u>	<u>(34,894)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,610	284,100
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>790,718</u>	<u>506,618</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 835,328</u>	<u>\$ 790,718</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, 2006 AND 2005

NOTE 1 - NATURE OF ACTIVITIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements present the Organization's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Contributions and support

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

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (Continued)

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

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

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits.

Investments

Investments consist of certificates of deposit (regardless of original maturity), stocks, bonds and money market funds, which are stated at market value. 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.

Certificates of deposit as of December 31, 2006, have maturity dates ranging from April, 2007 through August, 2007.

Contributions receivable

Unconditional promises to give, less an applicable allowance for uncollectible amounts, are recognized as revenues in the period received and as assets, decreases in liabilities, or decreases in expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At December 31, 2006 and 2005, all contributions receivable were due within one year.

As of December 31, 2006 and 2005, an allowance for uncollectible amounts has not been provided on contributions receivable since, in management's opinion, the receivable amounts are fully collectible, based on past history.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at acquisition cost, at the carrying basis for assets transferred in from merged organizations, or at estimated fair value at date of gift, if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (furniture, fixtures and equipment - 3 to 10 years; buildings and improvements - 10 to 39 years). The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

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

Donated services

The Organization utilizes donated time from local area attorneys and paralegals who provide legal services to eligible clients. The donated time represents a material contribution to the Organization's operations and is recognized in the financial statements based on average hourly rates for legal services in the respective areas.

Program and supporting services

The following functional expense classifications are included in the accompanying financial statements:

Program services - includes activities carried out to fulfill the Organization's mission to provide 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supporting services

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

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

Allocation of functional expenses

Costs of providing the Organization's programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general or fundraising.

Income taxes

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

Compensated absences

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

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates

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

Reclassifications

Certain prior year amounts have been reclassified to be comparative with the current year's presentation.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, various grants, accounts and contributions receivable, 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 33% (45% in 2005) of its revenues, excluding donated services, from Legal Services Corporation. In addition, a bequest from one source in 2006 made up 22% of revenues, excluding donated services.

The Organization maintains cash balances in bank deposit accounts, certificates of deposits, and certain money market funds at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

Substantially all of the Organization's investments in stocks, bonds, and money market funds are held in the name of the Organization by its custodian.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	2006	2005
Certificates of deposit	\$ 354,767	\$ 350,196
Money market funds	645,578	103,988
Equity securities	891,435	-
Fixed income	208,084	-
	\$ 2,099,864	\$ 454,184

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

	2006	2005
Interest and dividend income	\$ 76,489	\$ 19,046
Unrealized gains on investments	51,475	-
	\$ 127,964	\$ 19,046

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2006	2005
Land	\$ 83,000	\$ 83,000
Buildings and improvements	470,572	445,505
Office furniture and computer equipment	234,495	216,042
	788,067	744,547
Less accumulated depreciation	(349,546)	(291,855)
	\$ 438,521	\$ 452,692

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
Contributions and receivables - time restriction	\$ 318,805	\$ 195,560
Contributions for future salaries:		
Loewenstein chair	1,537,720	-
Other positions	45,339	36,868
United Way receivable - time restriction	67,263	64,161
	<u>\$ 1,969,127</u>	<u>\$ 296,589</u>

NOTE 7 - DONATED SERVICES

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

	2006			2005		
	Rate	Hours	Value of Donated Services	Rate	Hours	Value of Donated Services
Attorneys	\$150 - \$175	7,372	\$1,263,704	\$150 - \$175	5,478	\$ 951,895
Paralegals	\$ 50	702	35,100	\$ 50	556	27,800
Law clerk/students	\$10 - \$12	8,538	97,074	\$10 - \$12	6,715	76,530
Other services			69,418			66,939
Total donated services			<u>\$1,465,296</u>			<u>\$1,123,164</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

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 and Title VII of the Older Americans Act Grants), the Tennessee Department of Human Services (SSI Representation Grant) and the Tennessee Department of Finance and Administration (VOCA and STOP Grant). The Organization is required to match 10% of the Title III and Title VII grants, 20% of the VOCA and SSI Representation Grants, and 25% of the STOP Grant earned during the year. For the years ended December 31, 2006 and 2005, these matches amounted to \$162,292 and \$144,874, respectively.

NOTE 9 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

A donor-designated endowment fund has been established with the Community Foundation of Middle Tennessee for the benefit of the Organization. The Community Foundation of Middle Tennessee has the ultimate authority and control over the fund and, therefore, these assets are not included in the financial statements of the Organization. Income distributed to the Organization is recognized by the Organization in the year received. There were no such distributions in 2006 and 2005. Total assets held in this fund amounted to \$16,203 and \$13,407 at December 31, 2006 and 2005, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

In May 2003, the Organization relocated its Nashville office and entered into a ten-year non-cancelable operating lease at the new location. The lease provides for annual scheduled rent increases and includes two 5-year renewal options. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the initial term of the lease. In addition, the Organization subleases a portion of this office space to another not-for-profit agency at the same terms. Rent payments from the sublessee are reported on the straight-line basis as a reduction of rent expense. The excess of rent expense recognized, net of sublease income, over the amount paid and received is included in accrued expenses.

The Organization also leases certain office equipment under non-cancelable operating leases expiring between December 2007 and October 2011.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of December 31, 2006, aggregate future lease commitments for office space and various office equipment total the following:

For the year ending December 31,	Minimum Lease Commitments Office space	Sublease Income Office Space	Net Lease Commitments Office Space	Minimum Lease Commitments Equipment	Total Net Lease Commitments
2007	\$ 229,569	\$ 29,856	\$ 199,713	\$ 62,406	\$ 262,119
2008	235,426	30,763	204,663	43,452	248,115
2009	213,054	31,697	181,357	35,249	216,606
2010	204,166	32,644	171,522	33,468	204,990
2011	189,124	33,619	155,505	26,496	182,001
Thereafter	240,612	46,295	194,317	-	194,317
	<u>\$ 1,311,951</u>	<u>\$ 204,874</u>	<u>\$ 1,107,077</u>	<u>\$ 201,071</u>	<u>\$ 1,308,148</u>

Total rental expense recognized under all such agreements for the year ended December 31, 2006, amounted to approximately \$258,000 (\$248,000 in 2005), net of sublease income, for office space, and approximately \$45,000 (\$38,000 in 2005) for office equipment.

The Organization is self-insured for unemployment compensation. Unemployment compensation cost for the years ended December 31, 2006 and 2005, amounted to \$15,796 and \$8,005, respectively.

NOTE 11 - 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 \$141,985 in 2006 (\$118,440 in 2005), which includes forfeitures of \$1,829 in 2006 (\$23,628 in 2005).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2006 AND 2005

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2006</u>	<u>2005</u>
Annual fundraising campaign	\$ 53,855	\$ 50,602
Recruiting volunteer attorneys	28,476	24,793
Obtaining other financial resources	<u>12,714</u>	<u>19,430</u>
	<u>\$ 95,045</u>	<u>\$ 94,825</u>

NOTE 13 - NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, which is effective for fiscal years beginning after December 15, 2006. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file or not file in a particular jurisdiction. The cumulative effect of the changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of retained earnings in the period of adoption. The Company is currently evaluating the impact, if any, of the adoption of FIN 48 on the financial statements.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2009	Receipts	Expenditures	Change	Accrued (Deferred) Revenue 12/31/2009
LEGAL SERVICES CORPORATION									
Basic Field Grant	09-643040 (1)	N/A	1/1/00 - 12/31/09	\$ 2,326,420	\$	\$ 2,426,420	\$ 2,326,420	\$	\$
TOTAL LEGAL SERVICES CORPORATION						\$ 2,426,420	\$ 2,326,420		\$
US DEPARTMENT OF AGRICULTURE									
PASSED THROUGH TENNESSEE DEPARTMENT OF HUMAN SERVICES:									
Food Stamp Education Program	10-561	GR-05-16755-03	10/1/04 - 09/30/07	\$ 132,900	\$ 5,657	16,411	18,023		2,866
TOTAL US DEPARTMENT OF AGRICULTURE						16,411	18,023		2,866
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE:									
Community Development Block Grant	14-218	N/A	7/1/05 - 6/30/06	\$ 18,500	\$ 5,830	12,971	7,161		1,669
Community Development Block Grant	14-218	N/A	7/1/06 - 6/30/07	\$ 15,614		6,546	11,045		4,569
TOTAL PASSED THROUGH CITY OF CLARKSVILLE, TENNESSEE						19,517	18,206		6,238
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Housing Counseling Assistance Program	14-169	N/A	10/1/05 - 9/30/06	\$ 65,000	28,199	65,000	36,801		
Housing Counseling Assistance Program	14-169	N/A	10/1/06 - 9/30/07	\$ 65,000			24,711		34,289
Fair Housing Initiatives Program - Private Enforcement	14-408	N/A	12/31/04 - 6/30/06	\$ 31,768	2,449	3,918	1,469		
Fair Housing Initiatives Program - Private Enforcement	14-408	N/A	3/1/06 - 2/28/07	\$ 35,906		5,072	11,279		8,162
TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES						72,815	74,260		42,451
TOTAL US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						91,332	92,466		48,739
US DEPARTMENT OF JUSTICE									
PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE:									
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16-590	N/A	9/1/03 - 9/31/05	\$ 150,573	6,593	6,593			43,906
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16-590	N/A	10/1/05 - 9/30/07	\$ 90,025	11,533	58,153	45,216		
TOTAL PASSED THROUGH THE COUNTY OF MONTGOMERY, TENNESSEE						64,746	45,216		43,906

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LEGAL AID SIXTITY OF MIDDLE TENNESSEE AND THE CUMBERLANDS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2006

Program Name	Federal CTDA Number	Contract Number	Award Period	Award Amount	Accrued (Deferred) Revenue 12/31/2005	Receipts	Expenditures	Other	Accrued (Deferred) Revenue 12/31/2006
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
STOP Violence Against Women (Nashville)	16.588	Z-00-091406-01	7/1/05 - 6/30/06	\$ 79,191	\$ 2,068	\$ 14,801	\$ 12,735	\$ -	\$ -
STOP Violence Against Women (Nashville)	16.588	Z-07-033038-00	7/1/06 - 6/30/09	\$ 67,508	-	8,583	14,117	-	1,771
STOP Violence Against Women (Tullahoma, Columbia and Murfreesboro)	16.588	Z-00-001402-01	7/1/05 - 6/30/06	\$ 172,020	4,293	28,965	25,772	-	-
STOP Violence Against Women (Tullahoma, Columbia and Murfreesboro)	16.588	Z-07-053039-00	7/1/06 - 6/30/09	\$ 146,217	-	21,197	25,798	-	4,001
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-00-090363-01	7/1/05 - 6/30/06	\$ 172,620	4,419	33,093	28,674	-	-
Victims of Crime Act (VOCA) (Clarksville)	16.575	Z-07-053097-00	7/1/06 - 6/30/09	\$ 173,301	-	22,971	27,472	-	4,501
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-00-099289-01	7/1/05 - 6/30/06	\$ 169,233	4,779	33,871	29,062	-	-
Victims of Crime Act (VOCA) (Nashville)	16.575	Z-07-053115-00	7/1/06 - 6/30/09	\$ 174,309	-	25,515	28,188	-	4,591
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-00-099296-01	7/1/05 - 6/30/06	\$ 152,830	4,272	29,850	25,638	-	-
Victims of Crime Act (VOCA) (Columbia and Tullahoma)	16.575	Z-07-053108-00	7/1/06 - 6/30/09	\$ 157,467	-	21,877	26,331	-	4,644
TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION									
					19,781	227,655	207,443	-	19,002
PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWTP:									
Military CCR Demonstration Project	16.526	N/A	5/16/05 - 6/30/06	\$ 40,000	7,969	5,443	14,574	-	13,138
TOTAL PASSED THROUGH MINNESOTA PROGRAM DEVELOPMENT, INC/BWTP									
					7,969	5,443	14,574	-	13,138
TOTAL US DEPARTMENT OF JUSTICE:									
				45,876		304,344	290,922		38,690
US DEPARTMENT OF JUSTICE TREASURY									
Low-Income Taxpayer Clinic Grant Programs	21.008	2005125	1/1/05 - 12/31/05	\$ 100,000	17,604	17,604	-	-	-
Low-Income Taxpayer Clinic Grant Programs	21.008	2006126	1/1/06 - 12/31/06	\$ 100,000	-	98,755	100,000	-	1,212
TOTAL US DEPARTMENT OF JUSTICE TREASURY									
					17,604	116,359	100,000		1,212
US DEPARTMENT OF HEALTH AND HUMAN SERVICES									
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:									
Legal Assistance - Title III Priority	93.044	2006-07	7/1/05 - 6/30/06	\$ 40,800	5,679	22,322	16,653	-	-
Legal Assistance - Title III Priority	93.044	2006-07	7/1/06 - 6/30/07	\$ 40,800	-	14,196	23,205	-	5,007
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL									
					5,679	36,518	39,858		9,017

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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, 2006

Program Name	Federal CFDA Number	Contract Number	Award Period	Award Amount	Awarded Revenue 12/31/2006	Account Debit/credit Revenue 12/31/2006
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT						
AREA AGENCY ON AGING AND DISABILITY:						
Legal Assistance - Title III Priority	93.044	N/A	7/1/05 - 6/30/06	\$ 36,500	\$ (846)	\$ -
Legal Assistance - Title III Priority	93.044	N/A	7/1/06 - 6/30/07	\$ 36,500	-	16,880
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/03 - 6/30/04	\$ 15,000	(8)	-
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/05 - 6/30/06	\$ 6,300	(919)	-
Legal Assistance - Title VII Priority - Elder Abuse	93.041	N/A	7/1/06 - 6/30/07	\$ 8,100	-	4,344
					3,099	2,871
				39,981	(1,773)	39,518
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT						
AREA AGENCY ON AGING AND DISABILITY						
PASSED THROUGH THE TENNESSEE DEPARTMENT OF HUMAN SERVICES						
Company Assistance for Needy Families - SSI Representation	93.558	(2)	GR-06-16908-01	\$ 100,000	1,926	6,978
					1,926	31,731
					1,926	6,978
				143,407	5,872	151,192
						8
						14,368
				2,098,296	111,427	2,985,519
						8
						93,712

Summary of expenditures by CFDA number

197643040	\$ 2,320,426
10.561	18,613
14.169	91,512
14.218	18,798
14.408	12,748
16.526	14,574
16.575	365,323
16.588	71,520
16.590	45,216
21.008	300,093
93.041	7,215
93.044	72,169
93.558	31,731
Total	\$ 2,985,519

- (1) Considered a major program under OMB Circular A-133.
- (2) Federal portion of expenditures \$25,106

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, *Standards of States, Local Governments, and Non-Profit Organizations* and the Legal Services Comparison 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, 2006

	Basic Field Grant	Private Attorney Involvement	Total
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,053,661	\$ 272,759	\$ 2,326,420
Contributions and foundation grants	378,344	156,570	534,914
Donated services	-	1,465,296	1,465,296
Total support and revenue	<u>2,432,005</u>	<u>1,894,625</u>	<u>4,326,630</u>
PERSONNEL EXPENSES			
Lawyers	533,237	141,947	675,184
Paralegals	112,489	39,496	151,985
Support staff	489,427	103,594	593,021
Employee benefits	417,014	29,274	446,288
Payroll taxes	75,718	21,223	96,941
Total personnel expenses	<u>1,627,885</u>	<u>335,534</u>	<u>1,963,419</u>
OTHER EXPENSES			
Donated services	-	1,465,296	1,465,296
Court costs and litigation	64,624	27,379	92,003
Dues and fees	570	1,454	2,024
Equipment rental and maintenance	41,605	1,670	43,275
Insurance	35,599	1,375	36,974
Occupancy	249,247	14,047	263,294
Postage	23,591	2,003	25,594
Printing and publications	50,806	991	51,797
Professional fees and contract services	99,042	40,629	139,671
Supplies	69,026	1,467	70,493
Telephone	68,607	1,377	69,984
Training	14,902	339	15,241
Travel	75,479	1,064	76,543
Total other expenses	<u>793,098</u>	<u>1,559,091</u>	<u>2,352,189</u>
TOTAL EXPENSES	<u>2,420,983</u>	<u>1,894,625</u>	<u>4,315,608</u>
SUPPORT AND REVENUE OVER EXPENSES	11,022	-	11,022
OTHER CHANGES IN NET ASSETS			
Acquisition of equipment	<u>(11,022)</u>	<u>-</u>	<u>(11,022)</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