

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2013 AND 2012

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2013 AND 2012

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S 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 - 20
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards.....	21 - 23
Schedule of Support, Revenue, Expenses and Changes in Net Assets for LSC Funds.....	24
 <u>OTHER REPORTS</u>	
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 <i>Government Auditing Standards</i>	25 - 26
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	27 - 28
Schedule of Findings and Questioned Costs.....	29



INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Legal Aid Society of Middle Tennessee and the Cumberland (the "Organization"), which comprise the statements of financial position as of December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2014 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.

Kraj+CPAs PLLC

Nashville, Tennessee
April 22, 2014

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF ACTIVITIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income, or specific portions thereof, be used for operations. The Organization had no permanently restricted net assets as of December 31, 2013 and 2012.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

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. Typically the Organization receives four quarterly payments from the State of Tennessee's indigent fund, which are unrestricted in nature. However, in late 2013, a fifth payment was received. This payment was recorded as revenue in 2013, but has been designated for 2014 operations.

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, 2013 AND 2012

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, 2013 AND 2012

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, 2013 and 2012, all contributions receivable were due within one year.

As of December 31, 2013 and 2012, 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
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

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
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

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 2010 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 balances have been reclassified to conform to the current year presentation. These classifications have no effect on the change in net assets previously presented.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2013 and April 22, 2014, 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, 2013 AND 2012

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 49% of total contributions receivable as of December 31, 2013 (47% in 2012). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization receives approximately 39% of its revenues in 2013 and 2012, excluding donated services, from Legal Services Corporation. Revenue from one other source was approximately 22% of its revenues, excluding donated services, in 2013 (17% in 2012).

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, 2013 AND 2012

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Cash and money market funds	\$2,179,203	\$1,667,285
Certificates of deposit	788,435	513,031
Equity securities	1,166,494	993,873
Fixed income securities	<u>474,173</u>	<u>473,946</u>
	<u>\$4,608,305</u>	<u>\$3,648,135</u>

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

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 49,510	\$ 63,141
Realized gains (losses) on investments	49,560	(1,058)
Unrealized gains on investments	195,728	114,957
Less: investment management fees	<u>(11,777)</u>	<u>(11,265)</u>
Net investment income	<u>\$ 283,021</u>	<u>\$ 165,775</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

NOTE 5 - FAIR VALUE MEASUREMENTS

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

	2013			Total
	Level 1	Level 2	Level 3	
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 474,173	\$ -	\$ 474,173
Equity securities:				
Common stock - domestic				
Basic materials	147,432	-	-	147,432
Consumer and industrial goods	195,509	-	-	195,509
Financial	59,280	-	-	59,280
Healthcare	164,971	-	-	164,971
Services	199,690	-	-	199,690
Technology	67,438	-	-	67,438
Utilities	45,961	-	-	45,961
Conglomerates	50,454	-	-	50,454
Other	62,280	-	-	62,280
Foreign stock	63,841	-	-	63,841
Mutual funds				
Large cap	46,044	-	-	46,044
Small cap	32,739	-	-	32,739
Diversified emerging markets	30,855	-	-	30,855
<i>Total investments at fair value</i>	<u>\$ 1,166,494</u>	<u>\$ 474,173</u>	<u>\$ -</u>	<u>\$ 1,640,667</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2012			Total
	Level 1	Level 2	Level 3	
<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, 2013 AND 2012

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	463,386	461,992
Office furniture and computer equipment	<u>510,738</u>	<u>411,544</u>
	1,057,124	956,536
Less accumulated depreciation	<u>(760,811)</u>	<u>(703,077)</u>
	<u>\$ 296,313</u>	<u>\$ 253,459</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Contributions and receivables - time restriction	\$ 571,363	\$ 520,881
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
Other	19,777	64,009
United Way receivable - time restriction	<u>73,829</u>	<u>69,009</u>
	<u>\$ 2,095,168</u>	<u>\$ 2,084,098</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

NOTE 8 - DONATED SERVICES

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

	2013			2012		
	Rate	Hours	Value of Donated Services	Rate	Hours	Value of Donated Services
Attorneys	\$175 - \$225	7,391	\$1,617,212	\$175 - \$225	12,831	\$2,758,042
Paralegals	\$ 75	1,848	138,599	\$ 75	1,804	135,300
Law clerks	\$10 - \$14	4,078	57,089	\$10 - \$14	5,987	83,821
Other services			50,713			28,733
Total donated services			<u>\$1,863,613</u>			<u>\$3,005,896</u>

The number of donated service hours varies from year to year depending on the number of cases served and the complexity of those cases.

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).

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

NOTE 10 - LEASES (CONTINUED)

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 if applicable, over the amount paid and received is included in accrued expenses.

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

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2013, follows:

For the year ending December 31,	<u>Office Space</u>	<u>Equipment</u>	<u>Total Lease Commitments</u>
	Minimum Lease Commitments	Minimum Lease Commitments	
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>\$ 881,580</u>	<u>\$ 74,247</u>	<u>\$ 955,827</u>

Total rental expense recognized under all such agreements for the years ended December 31, 2013 amounted to approximately \$275,000 (\$300,000 in 2012), net of sublease income if applicable, for office space, and approximately \$50,000 for year ended December 31, 2013 (\$44,000 for 2012) 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 2013 or 2012.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2013 AND 2012

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2013</u>	<u>2012</u>
Annual fundraising campaign	\$ 168,973	\$ 143,408
Recruiting volunteer attorneys	5,493	5,760
Obtaining other financial resources	<u>8,599</u>	<u>12,604</u>
	<u>\$ 183,065</u>	<u>\$ 161,772</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, 2013 and 2012, these matches amounted to \$166,758 and \$175,218, 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 distributions in the amount of \$22,920 in the year ended December 31, 2013 (\$5,100 in 2012). Total assets held in these funds amounted to \$959,337 and \$821,780 at December 31, 2013 and 2012, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2013

<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 12/31/2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2013</u>	
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1)	N/A	1/01/13 - 12/31/13	\$ 2,525,882	\$ -	\$ 2,525,882	\$ 2,525,882	\$ -
<u>TOTAL LEGAL SERVICES CORPORATION</u>									
						-	2,525,882	2,525,882	-
<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	3/01/11 - 2/28/12	\$ 38,906	1,414	1,414	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G11029	1/01/12 - 12/31/12	\$ 38,906	12,852	12,852	-	-
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G11029	1/01/13 - 12/31/13	\$ 38,906	-	2,021	19,525	17,504
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>									
						14,266	16,287	19,525	17,504
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
						14,266	16,287	19,525	17,504
<u>U.S. DEPARTMENT OF JUSTICE</u>									
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:									
Victims of Crime Act (VOCA)	16.575		19099	7/01/12 - 6/30/15	\$ 509,577	13,279	160,297	160,252	13,234
STOP Violence Against Women	16.588		19134	7/01/12 - 6/30/15	\$ 213,525	5,420	65,855	66,162	5,727
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>									
						18,699	226,152	226,414	18,961

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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, 2013

<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 12/31/2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2013</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	\$ 14,031	\$ 151,707	\$ 151,992	\$ 14,316
TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN						14,031	151,992	14,316
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>						32,730	377,859	33,277
<u>U.S. DEPARTMENT OF THE TREASURY</u>								
Low-Income Taxpayer Clinic Grant Program	21.008	12LITC0138	1/01/12 - 12/31/12	\$ 100,000	7,850	7,850	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	13LITC0138	1/01/13 - 12/31/13	\$ 100,000	-	90,108	100,000	9,892
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>						7,850	97,958	9,892
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>								
PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL:								
Legal Assistance - Title III Priority	93.044	2013-07	7/01/12 - 6/30/13	\$ 40,800	6,889	27,225	20,336	-
Legal Assistance - Title III Priority	93.044	2014-07	7/01/13 - 6/30/14	\$ 40,800	-	14,304	21,208	6,904
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL						6,889	41,529	6,904
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY								
Legal Assistance - Title III Priority	93.044	N/A	7/01/12 - 6/30/13	\$ 36,500	-	21,500	21,500	-
Legal Assistance - Title III Priority	93.044	N/A	7/01/13 - 6/30/14	\$ 36,500	-	15,200	15,200	-
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY						-	36,700	-

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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, 2013

<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 12/31/2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2013</u>
<u>PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES</u>								
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/12 - 6/30/13	N/A	\$ 27,920	\$ 36,765	\$ 8,845	\$ -
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/13 - 6/30/14	N/A	-	14,338	29,372	15,034
<u>TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES</u>					<u>27,920</u>	<u>51,103</u>	<u>38,217</u>	<u>15,034</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					<u>34,809</u>	<u>129,332</u>	<u>116,461</u>	<u>21,938</u>
<u>TOTAL OF EXPENDITURES OF FEDERAL AWARDS</u>					<u>\$ 89,655</u>	<u>\$ 3,147,318</u>	<u>\$ 3,140,274</u>	<u>\$ 82,611</u>

Summary of expenditures by CFDA number

09.643040	\$ 2,525,882
14.408	19,525
16.013	151,992
16.575	160,252
16.588	66,162
21.008	100,000
93.044	78,244
93.558	38,217

Total \$ 3,140,274

(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, 2013

	<u>Basic Field Grant</u>	<u>Private Attorney Involvement</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts - LSC	\$ 2,210,028	\$ 315,854	\$ 2,525,882
Investment income, net	1,067	-	1,067
Attorney fees	17,705	-	17,705
Donated services	-	1,863,613	1,863,613
Total support and revenue	<u>2,228,800</u>	<u>2,179,467</u>	<u>4,408,267</u>
PERSONNEL EXPENSES			
Lawyers	665,511	120,597	786,108
Paralegals	112,604	34,094	146,698
Support staff	508,358	63,141	571,499
Employee benefits	160,551	20,094	180,645
Payroll taxes	88,864	16,148	105,012
Total personnel expenses	<u>1,535,888</u>	<u>254,074</u>	<u>1,789,962</u>
OTHER EXPENSES			
Donated services	-	1,863,613	1,863,613
Court costs and litigation	52,964	5,551	58,515
Dues and fees	971	617	1,588
Equipment rental and maintenance	43,972	2,500	46,472
Insurance	20,654	1,500	22,154
Occupancy	224,271	19,626	243,897
Postage	18,248	1,800	20,048
Printing and publications	60,737	2,001	62,738
Professional fees and contract services	82,503	18,242	100,745
Supplies	47,031	4,630	51,661
Telephone	55,344	3,600	58,944
Training	16,378	901	17,279
Travel	69,839	812	70,651
Total other expenses	<u>692,912</u>	<u>1,925,393</u>	<u>2,618,305</u>
TOTAL EXPENSES	<u>2,228,800</u>	<u>2,179,467</u>	<u>4,408,267</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, 2013, 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, 2014.

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

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.

Kraft CPAs PLLC

Nashville, Tennessee
April 22, 2014



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 *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, 2013. 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 Cumberlandds complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

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.

Kraft CPAs PLLC

Nashville, Tennessee
April 22, 2014

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

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:

Unmodified

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