

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2016 AND 2015

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Legal Services Corporation (“LSC”) *Audit Guide*, respectively, 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 25, 2017 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 25, 2017

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 241,779	\$ 522,761
Investments	5,220,647	4,769,638
Accounts receivable	-	1,138
Federal, state and local grants receivable	139,173	108,412
Contributions receivable	836,110	505,580
Prepaid expenses	37,631	33,359
Property and equipment, net	480,339	435,788
Client escrow funds	<u>37,115</u>	<u>21,609</u>
 TOTAL ASSETS	 <u>\$ 6,992,794</u>	 <u>\$ 6,398,285</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 52,782	\$ 22,440
Accrued expenses and other	487,273	520,142
Client escrow deposits	<u>37,115</u>	<u>21,609</u>
 TOTAL LIABILITIES	 <u>577,170</u>	 <u>564,191</u>
 NET ASSETS		
Unrestricted:		
Undesignated	3,519,239	3,147,096
Designated for property and equipment	<u>480,339</u>	<u>435,788</u>
Total unrestricted	3,999,578	3,582,884
Temporarily restricted	<u>2,416,046</u>	<u>2,251,210</u>
 TOTAL NET ASSETS	 <u>6,415,624</u>	 <u>5,834,094</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,992,794</u>	 <u>\$ 6,398,285</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, 2016 AND 2015

	2016				TOTAL
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>		<u>TOTAL</u>	
	<u>LSC</u>	<u>NON-LSC</u>	<u>TOTAL</u>	<u>TOTAL</u>	<u>TOTAL</u>
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 3,174,866	\$ 2,192,617	\$ 5,367,483	\$ 5,367,483
Contributions and foundation grants	830,997	-	1,066,147	1,066,147	1,897,144
Investment income (loss), net	216,862	418	-	418	217,280
Attorney fees	4,978	3,776	-	3,776	8,754
Gain on disposal of property and equipment	68,680	60,161	-	60,161	128,841
Miscellaneous income	660	-	-	-	660
Donated services	-	1,403,799	-	1,403,799	1,403,799
Net assets released from restrictions	<u>7,736,948</u>	<u>(4,643,020)</u>	<u>(3,093,928)</u>	<u>(7,736,948)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>8,859,125</u>	<u>-</u>	<u>164,836</u>	<u>164,836</u>	<u>9,023,961</u>
OPERATING EXPENSES					
Program services	7,110,863	-	-	-	7,110,863
Supporting services:					
Management and general	1,106,687	-	-	-	1,106,687
Fundraising	<u>224,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>224,881</u>
TOTAL OPERATING EXPENSES	<u>8,442,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,442,431</u>
CHANGE IN NET ASSETS	416,694	-	164,836	164,836	581,530
NET ASSETS - BEGINNING OF YEAR	<u>3,582,884</u>	<u>-</u>	<u>2,251,210</u>	<u>2,251,210</u>	<u>5,834,094</u>
NET ASSETS - END OF YEAR	<u>\$ 3,999,578</u>	<u>\$ -</u>	<u>\$ 2,416,046</u>	<u>\$ 2,416,046</u>	<u>\$ 6,415,624</u>

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

2015

UNRESTRICTED	TEMPORARILY RESTRICTED			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 3,077,716	\$ 2,181,403	\$ 5,259,119	\$ 5,259,119
784,088	-	889,519	889,519	1,673,607
(47,292)	901	-	901	(46,391)
8,438	23,582	-	23,582	32,020
145,141	-	-	-	145,141
25	-	-	-	25
-	1,938,621	-	1,938,621	1,938,621
<u>7,915,600</u>	<u>(5,040,820)</u>	<u>(2,874,780)</u>	<u>(7,915,600)</u>	<u>-</u>
<u>8,806,000</u>	<u>-</u>	<u>196,142</u>	<u>196,142</u>	<u>9,002,142</u>
7,543,099	-	-	-	7,543,099
967,386	-	-	-	967,386
<u>260,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>260,430</u>
<u>8,770,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,770,915</u>
35,085	-	196,142	196,142	231,227
<u>3,547,799</u>	<u>-</u>	<u>2,055,068</u>	<u>2,055,068</u>	<u>5,602,867</u>
<u>\$ 3,582,884</u>	<u>\$ -</u>	<u>\$ 2,251,210</u>	<u>\$ 2,251,210</u>	<u>\$ 5,834,094</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			TOTAL
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	
PERSONNEL EXPENSES				
Lawyers	\$ 2,119,135	\$ 163,763	\$ 21,222	\$ 2,304,120
Paralegals	626,503	-	1,755	628,258
Support staff	785,940	392,798	94,195	1,272,933
Employee benefits	631,621	84,990	11,110	727,721
Payroll taxes	257,026	41,628	11,430	310,084
TOTAL PERSONNEL EXPENSES	<u>4,420,225</u>	<u>683,179</u>	<u>139,712</u>	<u>5,243,116</u>
OTHER EXPENSES				
Court costs and litigation	123,188	-	288	123,476
Depreciation	107,122	-	-	107,122
Dues and fees	19,769	9,723	150	29,642
Equipment rental and other	99,044	30,236	235	129,515
Insurance	35,898	7,164	-	43,062
Occupancy	360,149	52,972	3,282	416,403
Postage	23,099	7,904	6,965	37,968
Printing and publications	79,645	4,841	16,007	100,493
Professional fees and contract services	112,485	182,960	48,640	344,085
Supplies	118,378	49,185	2,991	170,554
Telephone	68,497	17,994	50	86,541
Training	31,611	12,732	5,363	49,706
Travel	107,954	47,797	1,198	156,949
TOTAL OTHER EXPENSES	<u>1,286,839</u>	<u>423,508</u>	<u>85,169</u>	<u>1,795,516</u>
TOTAL EXPENSES BEFORE DONATED SERVICES	5,707,064	1,106,687	224,881	7,038,632
Donated services	<u>1,403,799</u>	<u>-</u>	<u>-</u>	<u>1,403,799</u>
TOTAL EXPENSES	<u>\$ 7,110,863</u>	<u>\$ 1,106,687</u>	<u>\$ 224,881</u>	<u>\$ 8,442,431</u>

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

2015

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 2,141,469	\$ 143,318	\$ 17,514	\$ 2,302,301
615,178	-	-	615,178
813,536	285,589	103,619	1,202,744
599,686	67,554	8,497	675,737
261,768	32,364	6,105	300,237
<u>4,431,637</u>	<u>528,825</u>	<u>135,735</u>	<u>5,096,197</u>
103,127	-	-	103,127
85,713	-	-	85,713
26,029	2,696	750	29,475
62,587	14,974	76	77,637
31,356	4,590	126	36,072
337,630	63,294	3,301	404,225
22,927	7,395	8,431	38,753
71,481	8,764	23,350	103,595
157,145	190,895	80,556	428,596
68,891	85,411	1,439	155,741
72,171	18,025	-	90,196
32,594	6,638	6,612	45,844
101,190	35,879	54	137,123
<u>1,172,841</u>	<u>438,561</u>	<u>124,695</u>	<u>1,736,097</u>
5,604,478	967,386	260,430	6,832,294
<u>1,938,621</u>	<u>-</u>	<u>-</u>	<u>1,938,621</u>
<u>\$ 7,543,099</u>	<u>\$ 967,386</u>	<u>\$ 260,430</u>	<u>\$ 8,770,915</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 581,530	\$ 231,227
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	107,122	85,713
Gain on disposal of property and equipment	(128,841)	(145,141)
Realized and unrealized (gains) losses on investments	(175,111)	82,000
(Increase) decrease in:		
Accounts receivable	1,138	30,758
Federal, state and local grants receivable	(30,761)	50,869
Contributions receivable	(330,530)	1,138
Prepaid expenses	(4,272)	(8,092)
Increase (decrease) in:		
Accounts payable	30,342	(46,998)
Accrued expenses and other	<u>(32,869)</u>	<u>85,864</u>
TOTAL ADJUSTMENTS	<u>(563,782)</u>	<u>136,111</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>17,748</u>	<u>367,338</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(172,596)	(228,610)
Insurance proceeds from Murfreesboro fire	89,603	159,758
Proceeds from sale of property and equipment	60,161	-
Purchases of investments	(1,394,432)	(1,051,171)
Proceeds from sale of investments	<u>1,118,534</u>	<u>622,942</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(298,730)</u>	<u>(497,081)</u>
NET DECREASE IN CASH	(280,982)	(129,743)
CASH - BEGINNING OF YEAR	<u>522,761</u>	<u>652,504</u>
CASH - END OF YEAR	<u>\$ 241,779</u>	<u>\$ 522,761</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, 2016 AND 2015

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, 2016 and 2015.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

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.

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 consists of operating checking accounts with financial institutions and petty cash. Cash and cash equivalents that are designated for long-term investment are included in investments in the Statement of Financial Position.

Investments

Investments consist of cash and money market funds held for investment, certificates of deposit, equity securities and fixed income securities. 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, 2016 AND 2015

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 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, 2016 AND 2015

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, 2016 and 2015, all contributions receivable were due within one year.

As of December 31, 2016 and 2015, 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. See Note 6 for more information about property disposed of during 2016.

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, 2016 AND 2015

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 the indigent, the elderly, victims of domestic violence and otherwise disadvantaged persons 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, 2016 AND 2015

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.

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.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the Statement of Activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Reclassifications

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2016 and April 25, 2017, 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, 2016 AND 2015

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, 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 four contributors approximated 60% of total contributions receivable as of December 31, 2016 (52% from three contributors in 2015). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization received approximately 42% of its revenues, excluding donated services, from Legal Services Corporation in 2016 (43% in 2015). Revenue from one other source was approximately 17% of its revenues, excluding donated services, in 2016 and 2015.

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, 2016 AND 2015

NOTE 4 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and money market funds	\$2,272,254	\$1,932,378
Certificates of deposit	514,313	514,027
Equity securities	1,150,579	1,055,272
Fixed income securities	<u>1,283,501</u>	<u>1,267,961</u>
	<u>\$5,220,647</u>	<u>\$4,769,638</u>

The following schedule summarizes the investment income (loss) for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 54,714	\$ 47,839
Realized loss on investments	23,402	(4,187)
Unrealized gain (loss) on investments	151,709	(77,813)
Less: investment management fees	<u>(12,545)</u>	<u>(12,230)</u>
Net investment income (loss)	<u>\$ 217,280</u>	<u>\$ (46,391)</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 5 - FAIR VALUE MEASUREMENTS

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

	<u>2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,283,501	\$ -	\$ 1,283,501
Equity securities:				
Common stock - domestic				
Basic materials	118,261	-	-	118,261
Consumer and industrial goods	240,581	-	-	240,581
Financial	57,043	-	-	57,043
Healthcare	179,587	-	-	179,587
Services	168,690	-	-	168,690
Technology	106,628	-	-	106,628
Utilities	38,810	-	-	38,810
Conglomerates	47,400	-	-	47,400
Other	49,050	-	-	49,050
Foreign stock	48,670	-	-	48,670
Mutual funds				
Large cap	27,768	-	-	27,768
Small cap	41,256	-	-	41,256
Diversified emerging markets	26,835	-	-	26,835
<i>Total investments at fair value</i>	<u>\$ 1,150,579</u>	<u>\$ 1,283,501</u>	<u>\$ -</u>	<u>\$ 2,434,080</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			Total
	Level 1	Level 2	Level 3	
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,267,961	\$ -	\$ 1,267,961
Equity securities:				
Common stock - domestic				
Basic materials	86,356	-	-	86,356
Consumer and industrial goods	218,548	-	-	218,548
Financial	46,214	-	-	46,214
Healthcare	173,411	-	-	173,411
Services	147,624	-	-	147,624
Technology	102,384	-	-	102,384
Utilities	35,695	-	-	35,695
Conglomerates	56,070	-	-	56,070
Other	49,014	-	-	49,014
Foreign stock	47,100	-	-	47,100
Mutual funds				
Large cap	35,290	-	-	35,290
Small cap	33,033	-	-	33,033
Diversified emerging markets	24,533	-	-	24,533
<i>Total investments at fair value</i>	<u>\$ 1,055,272</u>	<u>\$ 1,267,961</u>	<u>\$ -</u>	<u>\$ 2,323,233</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 83,000	\$ 83,000
Buildings and improvements	515,057	424,036
Office furniture and computer equipment	567,902	517,839
Construction in progress	<u>-</u>	<u>47,457</u>
	1,165,959	1,072,332
Less accumulated depreciation	<u>(685,620)</u>	<u>(636,544)</u>
	<u>\$ 480,339</u>	<u>\$ 435,788</u>

During 2016, the Organization received approval from LSC to sell its building located in Columbia, Tennessee. LSC required the proceeds of \$60,161 to be categorized as LSC funds and used in accordance with their rules and regulations. Additionally, in connection with this approval, the Organization assigned an interest of approximately \$48,000 in another property owned by the Organization to LSC.

During 2015, the Organization's Murfreesboro office was severely damaged by fire. The Organization received \$89,603 in insurance proceeds during 2016 (\$159,758 in 2015) that was used to offset the cost to rebuild and replace contents. This work was completed in 2016.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Contributions and receivables - time restriction	\$ 434,659	\$ 517,789
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
THDA mortgage assistance	131,051	144,783
Foreclosure prevention and community development	129,820	-
Gilbert Foundation child advocacy	100,000	-
Skadden fellowship	16,378	17,693
Legal services for seniors	17,337	25,606
Baptist Healing Trust medical-legal partnership	55,000	-
Other	12,517	39,072
United Way receivable - time restriction	<u>89,085</u>	<u>76,068</u>
	<u>\$ 2,416,046</u>	<u>\$ 2,251,210</u>

NOTE 8 - DONATED SERVICES

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

	<u>2016</u>			<u>2015</u>		
	<u>Rate</u>	<u>Hours</u>	<u>Value of Donated Services</u>	<u>Rate</u>	<u>Hours</u>	<u>Value of Donated Services</u>
Attorneys	\$200 - \$275	5,356	\$1,349,848	\$200 - \$275	7,440	\$1,871,284
Paralegals	\$75	59	4,425	\$75	269	20,198
Law clerks	\$14	2,678	36,135	\$14	2,211	30,949
Other services			<u>13,391</u>			<u>16,190</u>
Total donated services			<u>\$1,403,799</u>			<u>\$1,938,621</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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 9 - LEASES

The Organization leases its office space under various cancelable and non-cancelable operating leases with monthly rental payments ranging from approximately \$2,200 to \$5,100 through 2026 (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. Minimum lease payments range from \$170,579 to \$173,990 per annum for the remaining term of the lease. The Organization is also responsible for basic operating expenses, to be adjusted annually. Rent expense is recognized on the straight-line basis over the term of the lease. The excess of rent expense recognized over the amount paid is included in accrued expenses.

The Organization also leases certain office equipment under a non-cancelable operating lease expiring in September 2021.

A summary of aggregate future lease commitments for office space and office equipment as of December 31, 2016, follows:

For the year ending December 31,	<u>Office Space</u>	<u>Equipment</u>	Total Lease Commitments
	Minimum Lease Commitments	Minimum Lease Commitments	
2017	\$ 394,536	\$ 22,697	\$ 417,233
2018	221,769	22,697	244,466
2019	197,817	22,697	220,514
2020	149,417	22,697	172,114
2021	145,017	17,022	162,039
Thereafter	<u>369,697</u>	<u>-</u>	<u>369,697</u>
	<u>\$ 1,478,253</u>	<u>\$ 107,810</u>	<u>\$ 1,586,063</u>

Total rental expense recognized under all such agreements for the years ended December 31, 2016 and 2015 amounted to approximately \$362,000 and \$323,000, respectively, for office space and approximately \$69,000 and \$50,000, respectively for office equipment.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 10 - RETIREMENT PLAN

The Organization's eligible employees are covered under a 401(k) retirement plan. At the discretion of the Board, contributions to the plan are made by the Organization on behalf of all eligible employees based on their compensation. The Organization contributed \$107,496 and \$111,163, respectively for the year ended December 31, 2016 and 2015.

NOTE 11 - HEALTH INSURANCE PROGRAM

In addition to a third-party provider health insurance plan, the Organization has a self-insurance program for medical coverage of its employees and the employees' dependents. Specific individual losses for claims are limited to \$3,500 for every employee enrolled in the medical plan plus another \$3,500 for each employee that covers at least one dependent. During the years ended December 31, 2016 and 2015, expenses totaled \$44,380 and \$76,386, respectively, under the program. The Organization has accrued a liability for the expected claims that had been incurred but not paid of \$4,586 and \$11,777, respectively, as of December 31, 2016 and 2015.

NOTE 12 - FUNDRAISING EXPENSES

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

	<u>2016</u>	<u>2015</u>
Annual fundraising campaign	\$ 185,370	\$ 217,209
Recruiting volunteer attorneys	7,784	7,265
Obtaining other financial resources	<u>31,727</u>	<u>35,956</u>
	<u>\$ 224,881</u>	<u>\$ 260,430</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

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 Grant), 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, and 50% of the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2016 and 2015, these matches amounted to \$147,335 and \$166,896, 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. The Organization received distributions in the amount of \$43,800 in the year ended December 31, 2016 (\$46,300 in 2015). Total assets held in these funds amounted to \$878,796 and \$873,049 at December 31, 2016 and 2015, respectively.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2016

<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 12/31/2015</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2016</u>
<u>LEGAL SERVICES CORPORATION</u>								
Basic Field Grant	09.643040	(1)	N/A	1/01/16 - 12/31/16	\$ 3,136,134	\$ -	\$ 3,136,134	\$ -
Technology Initiative Grant	09.643040	(1)	14015	10/01/14 - 4/30/17	\$ 77,462	-	9,493	38,732
<u>TOTAL LEGAL SERVICES CORPORATION</u>					-	3,145,627	3,174,866	29,239
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>								
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:								
Fair Housing Initiatives Program - Private Enforcement	14.408		FH700G14047	1/01/15 - 12/31/17	\$ 116,730	6,832	34,650	35,435
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					6,832	34,650	35,435	7,617
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					6,832	34,650	35,435	7,617
<u>U.S. DEPARTMENT OF JUSTICE</u>								
PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION:								
Victims of Crime Act (VOCA)	16.575		26718	7/01/15 - 6/30/18	\$ 509,580	13,851	166,530	171,221
STOP Violence Against Women	16.588		26696	7/01/15 - 6/30/18	\$ 213,525	5,431	68,912	69,889
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>					19,282	235,442	241,110	24,950
PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY:								
STOP Violence Against Women	16.588		26928	8/15/15 - 6/30/18	\$ 225,000	-	73,547	78,049
<u>TOTAL PASSED THROUGH METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY</u>					-	73,547	78,049	4,502
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	15,483	15,483	-
<u>TOTAL PASSED THROUGH OFFICE ON VIOLENCE AGAINST WOMEN</u>					15,483	15,483	-	-
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>					34,765	324,472	319,159	29,452

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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, 2016

<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 12/31/2015</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2016</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>								
Low-Income Taxpayer Clinic Grant Program	21.008	15LITC0028	1/01/15 - 12/31/15	\$ 100,000	\$ 12,354	\$ 12,354	\$ -	\$ -
Low-Income Taxpayer Clinic Grant Program	21.008	16LITC0253	1/01/16 - 12/31/16	\$ 100,000	-	90,277	100,000	9,723
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>					<u>12,354</u>	<u>102,631</u>	<u>100,000</u>	<u>9,723</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	2016-07	7/01/15 - 6/30/16	\$ 40,800	7,546	25,426	17,880	-
Legal Assistance - Title III Priority	93.044	2017-07	7/01/16 - 6/30/17	\$ 40,800	-	19,285	22,878	3,593
<u>TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL</u>					<u>7,546</u>	<u>44,711</u>	<u>40,758</u>	<u>3,593</u>
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY:								
Legal Assistance - Title III Priority	93.044	N/A	7/01/15 - 6/30/16	\$ 36,500	-	18,200	18,200	-
Legal Assistance - Title III Priority	93.044	06-2017-13	7/01/16 - 6/30/17	\$ 36,500	-	18,200	18,200	-
<u>TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY</u>					<u>-</u>	<u>36,400</u>	<u>36,400</u>	<u>-</u>
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES:								
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/15 - 6/30/16	\$ 33,000	7,729	34,582	26,853	-
Temporary Assistance for Needy Families - SSI Representation	93.558	(DHS)GR1338126	7/01/16 - 6/30/17	\$ 33,000	-	17,316	43,588	26,272
<u>TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES</u>					<u>7,729</u>	<u>51,898</u>	<u>70,441</u>	<u>26,272</u>
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					<u>15,275</u>	<u>133,009</u>	<u>147,599</u>	<u>29,865</u>
<u>TOTAL OF EXPENDITURES OF FEDERAL AWARDS</u>					<u>\$ 69,226</u>	<u>\$ 3,740,389</u>	<u>\$ 3,777,059</u>	<u>\$ 105,896</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, 2016

Summary of expenditures by CFDA number

(1) Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR)
Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

09.643040	\$	3,174,866
14.408		35,435
16.575		171,221
16.588		147,938
21.008		100,000
93.044		77,158
93.558		<u>70,441</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Legal Aid Society of Middle Tennessee and the Cumberlands (the "Organization") under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the LSC *Audit Guide*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Total	\$	<u>3,777,059</u>
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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, 2016

	<u>Basic Field Grant</u>	<u>Private Attorney Involvement</u>	<u>Other LSC Grants</u>	<u>Total</u>
SUPPORT AND REVENUE				
Grants and contracts - LSC	\$ 2,741,204	\$ 394,930	\$ 38,732	\$ 3,174,866
Interest and investment income	418	-	-	418
Attorney fees	3,776	-	-	3,776
Proceeds from sale of property	60,161	-	-	60,161
Donated services	-	1,403,799	-	1,403,799
Total support and revenue	<u>2,805,559</u>	<u>1,798,729</u>	<u>38,732</u>	<u>4,643,020</u>
PERSONNEL EXPENSES				
Lawyers	664,354	138,818	-	803,172
Paralegals	174,788	37,067	-	211,855
Support staff	704,715	63,163	-	767,878
Employee benefits	279,281	33,540	-	312,821
Payroll taxes	106,323	14,337	-	120,660
Total personnel expenses	<u>1,929,461</u>	<u>286,925</u>	<u>-</u>	<u>2,216,386</u>
OTHER EXPENSES				
Donated services	-	1,403,799	-	1,403,799
Court costs and litigation	88,635	9,880	-	98,515
Dues and fees	90	808	-	898
Equipment rental and other	53,040	1,996	-	55,036
Insurance	37,614	1,959	-	39,573
Occupancy	255,112	27,464	-	282,576
Postage	15,265	1,122	-	16,387
Printing and publications	36,587	3,414	-	40,001
Professional fees and contract services	139,973	49,456	-	189,429
Supplies	81,044	4,852	25,106	111,002
Telephone	61,332	1,743	-	63,075
Training	20,366	968	-	21,334
Travel	87,040	4,343	-	91,383
Total other expenses	<u>876,098</u>	<u>1,511,804</u>	<u>25,106</u>	<u>2,413,008</u>
TOTAL EXPENSES	<u>2,805,559</u>	<u>1,798,729</u>	<u>25,106</u>	<u>4,629,394</u>
SUPPORT AND REVENUE OVER EXPENSES	-	-	13,626	13,626
OTHER CHANGES IN NET ASSETS				
Acquisition of equipment	-	-	(13,626)	(13,626)
TOTAL CHANGES IN NET ASSETS	-	-	-	-
NET ASSETS - BEGINNING OF YEAR	-	-	-	-
NET ASSETS - END OF YEAR	<u>\$ -</u>	<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, 2016, 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 25, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2016-01 that we consider to be a material weakness.

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*.

ORGANIZATION'S RESPONSE TO FINDING

The Organization's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 25, 2017

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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; and the audit requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance) and the *LSC Audit Guide*. Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance 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 the Uniform Guidance and the LSC *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Kraj+CPAs PLLC

Nashville, Tennessee
April 25, 2017

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major federal 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:

\$750,000

Auditee qualified as low-risk auditee?

yes no

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

PRIOR YEAR

2015-01 Accrual of 401k Expenses

Status: This finding has been resolved in the current year.

CURRENT YEAR

2016-01 Year-End Close

CRITERIA

Management is responsible for preparing financial statements that are complete and accurate.

CONDITION

During the audit process the audit team proposed adjustments that were collectively material to properly present balances in accordance with GAAP and present accurate financial statements as follows:

Current year adjustments:

- To adjust current year fixed asset depreciation and the reduce of asset accounts for disposals, including the sale of the Columbia building
- To adjust campaign revenue for credit card donations received during the last week of the fiscal year but not recorded in the general ledger until January 2017
- To record the current year revenue and receivable related to the THDA mortgage loan settlement and adjust revenue and receivable for the LSC technology grant and multi-year United Way promise
- To adjust the accrued retirement contribution liability to actual and accrue the health insurance deductible reimbursement
- To record donated services
- To adjust deferred rent liability to reflect straight-line basis

CAUSE

Certain activity of the year was omitted from the books and records due to an oversight in the final review process of the financial statement accounts.

EFFECT

The effect of the adjustments were as follows: assets increased approximately \$194,000, liabilities decreased approximately \$18,000 and current year net income increased approximately \$212,000.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2016

2016-01 Year-End Close (Continued)

RECOMMENDATION

We recommend creating a year-end closing checklist to ensure all accounts are properly recorded and reconciled, and in the event of unusual or non-routine activity during the year, that the accountant double-check the accounting prior to final close and audit of the books and records.

MANAGEMENTS RESPONSE

The Organization's management takes responsibility in the oversight of recording of certain activity of the year due to not making a final review of the financial statements before closing. We have set in place a system where there is a checklist and final review before closing year end.

SECTION III - COMPLIANCE FINDINGS

PRIOR YEAR

There were no prior year findings.

CURRENT YEAR

There are no current year findings.