

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

LSC GRANT RECIPIENT: 643040

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2019 AND 2018

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

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ADDITIONAL INFORMATION
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INDEPENDENT AUDITOR’S REPORTS

DECEMBER 31, 2019 AND 2018

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Legal Aid of Middle Tennessee and the Cumberlandds

Board of Directors

December 31, 2019

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Susan L. Kay – Second Vice President

Adrie Mae Rhodes – Secretary

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Katie Bell Klinghard – Executive Committee Member at Large

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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, 2019 and 2018, 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 Cumberland as of December 31, 2019 and 2018, 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 Board of Directors listing on page i, schedule of expenditures of federal awards on pages 23-24 and schedule of support, revenue, expenses and changes in net assets for LSC funds on page 25, as required by the State of Tennessee Audit Manual, 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 May 29, 2020 on our consideration of Legal Aid Society of Middle Tennessee and the Cumberland’s 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Cumberland’s internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Knapf CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
May 29, 2020

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 1,104,821	\$ 1,648,695
Investments	4,757,720	4,674,831
Accounts receivable	2,811	2,228
Federal, state and local grants receivable	192,308	125,794
Contributions receivable	319,865	566,511
Prepaid expenses and deposits	92,861	72,424
Property and equipment, net	314,397	374,468
Restricted cash - client escrow funds	<u>7,599</u>	<u>12,213</u>
 TOTAL ASSETS	 <u>\$ 6,792,382</u>	 <u>\$ 7,477,164</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable	\$ 42,697	\$ 31,267
Accrued expenses and other	586,599	531,101
Client escrow deposits	<u>7,599</u>	<u>12,213</u>
 TOTAL LIABILITIES	 <u>636,895</u>	 <u>574,581</u>
 NET ASSETS		
Net assets without donor restrictions	4,168,891	4,348,049
Net assets with donor restrictions	<u>1,986,596</u>	<u>2,554,534</u>
 TOTAL NET ASSETS	 <u>6,155,487</u>	 <u>6,902,583</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,792,382</u>	 <u>\$ 7,477,164</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, 2019 AND 2018

	2019				
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			TOTAL
		LSC	NON-LSC	TOTAL	
REVENUES AND SUPPORT					
Federal, state and local awards	\$ -	\$ 3,163,159	\$ 3,035,100	\$ 6,198,259	\$ 6,198,259
Contributions and foundation grants	668,690	-	490,576	490,576	1,159,266
Investment income (loss), net	305,912	416	-	416	306,328
Attorney fees	-	19,520	-	19,520	19,520
Gain on disposal of property and equipment	-	-	-	-	-
Donated services	-	744,582	-	744,582	744,582
Net assets released from restrictions	8,021,291	(4,168,565)	(3,852,726)	(8,021,291)	-
TOTAL REVENUES AND SUPPORT	<u>8,995,893</u>	<u>(240,888)</u>	<u>(327,050)</u>	<u>(567,938)</u>	<u>8,427,955</u>
OPERATING EXPENSES					
Program services	7,253,102	-	-	-	7,253,102
Supporting services:					
Management and general	1,492,150	-	-	-	1,492,150
Fundraising	429,799	-	-	-	429,799
TOTAL OPERATING EXPENSES	<u>9,175,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,175,051</u>
CHANGE IN NET ASSETS	(179,158)	(240,888)	(327,050)	(567,938)	(747,096)
NET ASSETS - BEGINNING OF YEAR	<u>4,348,049</u>	<u>240,888</u>	<u>2,313,646</u>	<u>2,554,534</u>	<u>6,902,583</u>
NET ASSETS - END OF YEAR	<u>\$ 4,168,891</u>	<u>\$ -</u>	<u>\$ 1,986,596</u>	<u>\$ 1,986,596</u>	<u>\$ 6,155,487</u>

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

2018

WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			TOTAL
	LSC	NON-LSC	TOTAL	
\$ -	\$ 3,329,082	\$ 2,562,147	\$ 5,891,229	\$ 5,891,229
551,642	-	1,072,419	1,072,419	1,624,061
(5,197)	653	-	653	(4,544)
-	13,440	-	13,440	13,440
47,318	47,951	-	47,951	95,269
-	1,149,717	-	1,149,717	1,149,717
<u>8,009,009</u>	<u>(4,299,955)</u>	<u>(3,709,054)</u>	<u>(8,009,009)</u>	<u>-</u>
<u>8,602,772</u>	<u>240,888</u>	<u>(74,488)</u>	<u>166,400</u>	<u>8,769,172</u>
7,027,287	-	-	-	7,027,287
1,042,731	-	-	-	1,042,731
<u>269,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269,588</u>
<u>8,339,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,339,606</u>
263,166	240,888	(74,488)	166,400	429,566
<u>4,084,883</u>	<u>-</u>	<u>2,388,134</u>	<u>2,388,134</u>	<u>6,473,017</u>
<u>\$ 4,348,049</u>	<u>\$ 240,888</u>	<u>\$ 2,313,646</u>	<u>\$ 2,554,534</u>	<u>\$ 6,902,583</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Lawyers	\$ 2,712,694	\$ 214,323	\$ 78,479	\$ 3,005,496
Paralegals	748,909	-	8,586	757,495
Support staff	752,426	550,696	64,564	1,367,686
Employee benefits	929,807	116,699	11,952	1,058,458
Payroll taxes	<u>306,818</u>	<u>58,223</u>	<u>10,559</u>	<u>375,600</u>
TOTAL PERSONNEL EXPENSES	<u>5,450,654</u>	<u>939,941</u>	<u>174,140</u>	<u>6,564,735</u>
OTHER EXPENSES				
Court costs and litigation	101,678	50	-	101,728
Depreciation	60,071	-	-	60,071
Dues and fees	22,921	23,175	1,113	47,209
Equipment rental and other	46,195	22,288	481	68,964
Insurance	27,648	-	215	27,863
Occupancy	320,155	158,441	27,096	505,692
Postage	21,037	3,299	3,393	27,729
Printing and publications	87,507	9,090	20,636	117,233
Professional fees and contract services	71,363	206,578	163,533	441,474
Supplies	93,064	56,368	19,896	169,328
Telephone	43,718	19,011	30	62,759
Training	62,285	37,211	18,194	117,690
Travel	<u>100,224</u>	<u>16,698</u>	<u>1,072</u>	<u>117,994</u>
TOTAL OTHER EXPENSES	<u>1,057,866</u>	<u>552,209</u>	<u>255,659</u>	<u>1,865,734</u>
TOTAL EXPENSES BEFORE DONATED SERVICES	6,508,520	1,492,150	429,799	8,430,469
Donated services	<u>744,582</u>	<u>-</u>	<u>-</u>	<u>744,582</u>
TOTAL EXPENSES	<u>\$ 7,253,102</u>	<u>\$ 1,492,150</u>	<u>\$ 429,799</u>	<u>\$ 9,175,051</u>

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

2018

<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
\$ 2,275,765	\$ 144,577	\$ 45,242	\$ 2,465,584
636,731	-	487	637,218
786,339	374,323	97,942	1,258,604
734,625	37,351	19,378	791,354
<u>268,562</u>	<u>38,344</u>	<u>10,522</u>	<u>317,428</u>
<u>4,702,022</u>	<u>594,595</u>	<u>173,571</u>	<u>5,470,188</u>
115,964	97	-	116,061
86,040	-	-	86,040
16,922	2,148	595	19,665
78,270	23,569	-	101,839
45,990	1,285	62	47,337
388,566	133,755	1,659	523,980
22,958	4,947	2,672	30,577
69,746	3,971	16,831	90,548
116,715	190,958	54,843	362,516
42,936	40,295	9,492	92,723
48,831	17,599	62	66,492
35,313	10,810	6,762	52,885
<u>107,297</u>	<u>18,702</u>	<u>3,039</u>	<u>129,038</u>
<u>1,175,548</u>	<u>448,136</u>	<u>96,017</u>	<u>1,719,701</u>
5,877,570	1,042,731	269,588	7,189,889
<u>1,149,717</u>	<u>-</u>	<u>-</u>	<u>1,149,717</u>
<u>\$ 7,027,287</u>	<u>\$ 1,042,731</u>	<u>\$ 269,588</u>	<u>\$ 8,339,606</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (747,096)	\$ 429,566
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	60,071	86,040
Gain on disposal of property and equipment	-	(95,269)
Realized and unrealized (gains) losses on investments	(233,487)	57,220
(Increase) decrease in:		
Accounts receivable	(583)	(2,228)
Federal, state and local grants receivable	(66,514)	(13,445)
Contributions receivable	246,646	4,936
Prepaid expenses and deposits	(20,437)	1,338
Increase (decrease) in:		
Accounts payable	11,430	(23,171)
Accrued expenses and other	50,884	80,286
TOTAL ADJUSTMENTS	<u>48,010</u>	<u>95,707</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(699,086)</u>	<u>525,273</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(126,621)
Proceeds from sale of property and equipment	-	96,973
Purchases of investments	(1,223,750)	(942,599)
Proceeds from sale of investments	<u>1,374,348</u>	<u>953,024</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>150,598</u>	<u>(19,223)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	(548,488)	506,050
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	<u>1,660,908</u>	<u>1,154,858</u>
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 1,112,420</u>	<u>\$ 1,660,908</u>
Cash	\$ 1,104,821	\$ 1,648,695
Restricted cash - client escrow deposits	<u>7,599</u>	<u>12,213</u>
	<u>\$ 1,112,420</u>	<u>\$ 1,660,908</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, 2019 AND 2018

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”).

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets that are not subject to donor or grantor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of management and the Board of Directors.
- *Net assets with donor restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor and certain grantor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Grants - Revenues from government grant and contract agreements, which are generally considered non-exchange transactions with conditions, are recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenues on the Statements of Financial Position. Grants receivable are recorded when conditions have been satisfied but the payment has not yet been received. The annual basic field grant from LSC is deemed to be a contribution and is reported as such, in accordance with the *LSC Accounting Guide for LSC Recipients*. Any unexpended LSC funds that carry over from a prior year are included in donor restricted net assets. Advances received on the basic field grant for a subsequent year are recorded as deferred revenue until the year of the award. There were no deferred grant revenues to recognize as of December 31, 2019.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made.

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date of the donor's commitment or gift. Noncash contributions are recorded at the estimated fair value at the date of the gift. Contributions receivable, if any, are recorded at the estimated present value, net of an allowance for uncollectible amounts, if deemed necessary. At December 31, 2019 and 2018, all contributions receivable were due within one year.

As of December 31, 2019 and 2018, 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.

Cash and Restricted Cash

Cash consists of operating checking accounts with financial institutions and petty cash. Cash that is designated for long-term investment is included in investments in the Statement of Financial Position. The Organization holds restricted cash on behalf of its client's trust accounts which are reported on the Statement of Financial Position as restricted cash. These balances are offset by a corresponding liability.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (if any). The changes in unrealized gains and losses are recognized in the Statement of Activities.

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, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$2,500 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.

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

Supporting Services

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

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

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities. The Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that are consistently applied. Allocated expenses include occupancy, which is allocated on a square footage basis, as well as salaries, employee benefits, payroll taxes, professional fees and contract services, supplies, travel, etc. which are allocated on the basis of estimates of time and effort.

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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

New Accounting Pronouncement

On January 1, 2019, the Organization adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent amendments to the ASU (collectively, “ASC 606”), which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. The Organization adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. The Organization performed an analysis of revenue streams and transactions to determine in-scope applicability. The Organization recognizes revenues that fall within the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, the Organization did not record a cumulative effect adjustment.

On January 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improve guidance to better distinguish between conditional and unconditional contributions. The adoption of this ASU did not materially impact the financial statements and related disclosures.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

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 finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification (“ASC”) 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2021, through a cumulative-effect adjustment.

The new standard provides a number of practical expedients. Upon adoption, the Organization expects to elect all the practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2019 and May 29, 2020, 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, 2019 AND 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date, as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash	\$ 1,104,821	\$ 1,648,695
Accounts receivable	2,811	2,228
Federal, state and local grants receivable	192,308	125,794
Contributions receivable	319,865	566,511
Investments	<u>4,757,720</u>	<u>4,674,831</u>
Total financial assets	6,377,525	7,018,059
Less amounts not available to be used within one year:		
Restricted by the donor with time or purpose restrictions	<u>(1,986,596)</u>	<u>(2,554,534)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 4,390,929</u>	<u>\$ 4,463,525</u>

As part of the liquidity management plan, the Organization invests cash in excess of normal requirements in short-term investments, CDs, and money market funds.

NOTE 4 - 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.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 4 - CONCENTRATION OF CREDIT RISK (CONTINUED)

Contributions receivable consist of campaign, foundation and other organization pledges, as well as United Way receivables. Pledges receivable from three contributors approximated 92% of total contributions receivable as of December 31, 2019 (98% from five contributors in 2018). The grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Organization received approximately 41% and 44% of its revenues, excluding donated services, from Legal Services Corporation in 2019 and 2018, respectively. Revenue from one other source was approximately 15% and 17% of its revenues, excluding donated services, in 2019 and 2018, respectively.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodians of the Organization's securities are covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances, such as fraud or failure of the institution. Coverage is limited to \$500,000 per broker/dealer custodian, including up to \$250,000 in cash. The SIPC does not insure against market risk.

NOTE 5 - INVESTMENTS

Investments consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and money market funds	\$ 1,798,412	\$ 1,860,369
Certificates of deposit	515,003	514,829
Equity securities	1,107,152	978,034
Fixed income securities	<u>1,337,153</u>	<u>1,321,599</u>
	<u>\$ 4,757,720</u>	<u>\$ 4,674,831</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 85,447	\$ 65,631
Realized gain (loss) on investments	22,402	(5,183)
Unrealized gain (loss) on investments	211,085	(52,037)
Less: investment management fees	<u>(12,606)</u>	<u>(12,955)</u>
Investment income (loss), net	<u>\$ 306,328</u>	<u>\$ (4,544)</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 6 - FAIR VALUE MEASUREMENTS

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

	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,337,153	\$ -	\$ 1,337,153
Equity securities:				
Common stock - domestic				
Basic materials	52,382	-	-	52,382
Consumer and industrial goods	165,276	-	-	165,276
Financial	64,500	-	-	64,500
Healthcare	171,518	-	-	171,518
Services	218,823	-	-	218,823
Technology	217,257	-	-	217,257
Utilities	45,605	-	-	45,605
Other	19,401	-	-	19,401
Foreign stock	46,730	-	-	46,730
Mutual funds				
Large cap	21,815	-	-	21,815
Small cap	50,310	-	-	50,310
Diversified emerging markets	33,535	-	-	33,535
<i>Total investments at fair value</i>	<u>\$ 1,107,152</u>	<u>\$ 1,337,153</u>	<u>\$ -</u>	<u>\$ 2,444,305</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2018			Total
	Level 1	Level 2	Level 3	
<i>Investments:</i>				
Fixed income securities:				
Corporate bonds - domestic	\$ -	\$ 1,321,599	\$ -	\$ 1,321,599
Equity securities:				
Common stock - domestic				
Basic materials	53,856	-	-	53,856
Consumer and industrial goods	220,892	-	-	220,892
Financial	51,045	-	-	51,045
Healthcare	185,695	-	-	185,695
Services	119,452	-	-	119,452
Technology	93,781	-	-	93,781
Utilities	43,150	-	-	43,150
Other	76,448	-	-	76,448
Foreign stock	44,008	-	-	44,008
Mutual funds				
Large cap	19,540	-	-	19,540
Small cap	41,592	-	-	41,592
Diversified emerging markets	28,575	-	-	28,575
<i>Total investments at fair value</i>	<u>\$ 978,034</u>	<u>\$ 1,321,599</u>	<u>\$ -</u>	<u>\$ 2,299,633</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 60,000	\$ 60,000
Buildings and improvements	196,486	196,486
Office furniture and computer equipment	<u>416,202</u>	<u>416,202</u>
	672,688	672,688
Less accumulated depreciation	<u>(358,291)</u>	<u>(298,220)</u>
	<u>\$ 314,397</u>	<u>\$ 374,468</u>

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Contributions and receivables - time restriction	\$ 338,235	\$ 439,866
United Way receivable - time restriction	76,188	83,586
Contributions and receivables - purpose restriction:		
Loewenstein chair	1,430,199	1,430,199
Legal Services Corporation program	-	240,888
THDA mortgage assistance	-	137,429
Gilbert Foundation child advocacy	-	62,143
Re-entry program	81,710	93,447
SNAP community outreach	44,220	34,133
Other	<u>16,044</u>	<u>32,843</u>
	<u>\$ 1,986,596</u>	<u>\$ 2,554,534</u>

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 9 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions include certain amounts designated by the board of directors for specific purposes. At December 31, net assets without donor restrictions consist of the following:

	2019	2018
Net investment in property and equipment	\$ 314,397	\$ 374,468
Board designated earnings on donor restricted investment	277,108	136,534
Board designated for 2019 budget	-	385,306
Undesignated	3,577,386	3,451,741
	\$ 4,168,891	\$ 4,348,049

NOTE 10 - DONATED SERVICES

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

	2019			2018		
	Rate	Hours	Value of Donated Services	Rate	Hours	Value of Donated Services
Attorneys	\$200 - \$275	2,546	\$ 643,277	\$200 - \$275	4,063	\$ 1,006,625
Paralegals	\$75	445	33,409	\$75	-	-
Law clerks	\$14	2,830	39,618	\$14	3,195	44,736
Other services			28,278			98,356
Total donated services			\$ 744,582			\$ 1,149,717

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, 2019 AND 2018

NOTE 11 - 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 entered into a 123-month lease for a new Nashville office location, which began in April 2018. The lease provides for annual scheduled rent increases and includes one additional 5-year renewal option. Minimum lease payments range from \$207,621 to \$259,290 per year. 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. Any 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 in effect as of December 31, 2019, 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	
2020	\$ 425,780	\$ 22,697	\$ 448,477
2021	408,300	17,022	425,322
2022	394,294	-	394,294
2023	325,764	-	325,764
2024	308,101	-	308,101
Thereafter	<u>1,000,344</u>	<u>-</u>	<u>1,000,344</u>
	<u>\$ 2,862,583</u>	<u>\$ 39,719</u>	<u>\$ 2,902,302</u>

Total rental expense recognized under all rental agreements for the years ended December 31, 2019 and 2018 amounted to approximately \$444,000 and \$473,000, respectively, for office space and approximately \$49,000 and \$53,000, respectively, for office equipment.

NOTE 12 - 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 \$119,159 and \$111,837, respectively, for the year ended December 31, 2019 and 2018.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 13 - 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, 2019 and 2018, expenses totaled \$57,325 and \$66,908, respectively, under the program. The Organization has accrued a liability for the expected claims that had been incurred but not paid of \$19,537 and \$24,676, respectively, as of December 31, 2019 and 2018.

NOTE 14 - FUNDRAISING EXPENSES

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

	<u>2019</u>	<u>2018</u>
Annual fundraising campaign	\$ 262,717	\$ 142,990
Recruiting volunteer attorneys	20,949	10,954
Obtaining other financial resources	<u>146,133</u>	<u>115,644</u>
	<u>\$ 429,799</u>	<u>\$ 269,588</u>

NOTE 15 - 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 (SSI Representation), the Tennessee Department of Finance and Administration (VOCA, VOCA Enhancement, and VOCA Immigration 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 SSI Representation grants, 20% of the VOCA Grants, and 50% of the Low-Income Taxpayer Clinic Grant earned during the year. For the years ended December 31, 2019 and 2018, these matches amounted to \$271,890 and \$169,469, respectively.

LEGAL AID SOCIETY OF MIDDLE TENNESSEE
AND THE CUMBERLANDS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 16 - 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, 2019 (\$44,500 in 2018). Total assets held in these funds amounted to \$951,950 and \$845,677 at December 31, 2019 and 2018, respectively.

NOTE 17 - COVID-19 PANDEMIC

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, management is continuing to evaluate the evolving situation and will implement appropriate counter measures as needed.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act provides an economic relief package to many businesses in the US as a direct response to the adverse impacts of COVID-19. Section 1102 of the CARES Act establishes the Paycheck Protection Program (PPP), which is implemented by the Small Business Administration, and is intended to provide small businesses and certain nonprofit organizations (generally those with 500 or less employees) with funds to pay up to eight weeks of payroll costs and benefits, interest on mortgages, rent and utilities. The funds are available in the form of a loan which is fully forgivable under certain conditions. Forgiveness of the loans will be reduced if employment and/or payroll costs decrease in the eight weeks following receipt of funds. Funds that do not meet the forgiveness provisions will be repaid at a rate of 1.0% interest over a 24 month period. The Organization obtained approval for a PPP loan of approximately \$1,030,000 in May 2020. As of the date these financial statements were available to be issued, the amount of loan forgiveness has not been determined.

ADDITIONAL INFORMATION

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2019

<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 12/31/2018</u>	<u>Receipts</u>	<u>Program Income</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2019</u>
<u>LEGAL SERVICES CORPORATION</u>									
Basic Field Grant	09.643040	(1) N/A	1/01/19 - 12/31/19	\$ 3,163,159 (a)	\$ (230,888)	\$ 3,163,159	\$ 19,936	\$ 3,413,983	\$ -
VIETH Leadership Grant	09.643040	(1) 14015	11/01/18 - 10/31/19	\$ 10,000 (a)	(10,000)	-	-	10,000	-
<u>TOTAL LEGAL SERVICES CORPORATION</u>					<u>(240,888)</u>	<u>3,163,159</u>	<u>19,936</u>	<u>3,423,983</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
PASSED THROUGH WEST TENNESSEE LEGAL SERVICES:									
Fair Housing Initiatives Program - Private Enforcement	14.408	FPEI8000304	3/01/18 - 2/28/21	\$ 116,730	15,326	38,272	-	36,907	13,961
<u>TOTAL PASSED THROUGH WEST TENNESSEE LEGAL SERVICES</u>					<u>15,326</u>	<u>38,272</u>	<u>-</u>	<u>36,907</u>	<u>13,961</u>
<u>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>									
					<u>15,326</u>	<u>38,272</u>	<u>-</u>	<u>36,907</u>	<u>13,961</u>
<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 - 6/30/20	\$ 1,373,608	45,553	305,727	-	285,826	25,652
Victims of Crime Act (VOCA) (Enhancement)	16.575	37345	2/15/19 - 6/30/23	\$ 2,808,370	-	199,721	-	228,637	28,916
Victims of Crime Act (VOCA) (Immigration Clinic)	16.575	37752	2/15/19 - 6/30/23	\$ 988,251	-	156,425	-	179,730	23,305
STOP Violence Against Women	16.588	26696	7/01/15 - 6/30/20	\$ 446,308	6,557	77,185	-	76,418	5,790
<u>TOTAL PASSED THROUGH TENNESSEE DEPARTMENT OF FINANCE AND ADMINISTRATION</u>					<u>52,110</u>	<u>739,058</u>	<u>-</u>	<u>770,611</u>	<u>83,663</u>
<u>TOTAL U.S. DEPARTMENT OF JUSTICE</u>									
					<u>52,110</u>	<u>739,058</u>	<u>-</u>	<u>770,611</u>	<u>83,663</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>									
Low-Income Taxpayer Clinic Grant Program	21.008	18-LITC0253-03-01	1/01/18 - 12/31/18	\$ 100,000	18,769	18,769	-	-	-
Low-Income Taxpayer Clinic Grant Program	21.008	19-LITC0437-01-00	1/01/19 - 12/31/19	\$ 100,000	-	56,480	-	100,000	43,520
<u>TOTAL U.S. DEPARTMENT OF THE TREASURY</u>					<u>18,769</u>	<u>75,249</u>	<u>-</u>	<u>100,000</u>	<u>43,520</u>

(a) In accordance with the LSC Accounting Guide for LSC Recipients, these amounts are treated as net assets with donor restrictions, as opposed to deferred revenue at year-end.

(continued on next page)

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2019

<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 12/31/2018</u>	<u>Receipts</u>	<u>Program Income</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue 12/31/2019</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	2019-07	7/01/18 - 6/30/19	\$ 40,800	\$ 3,074	\$ 20,705	\$ -	\$ 17,631	\$ -	
Legal Assistance - Title III Priority	93.044	2020-07	7/01/19 - 6/30/20	\$ 55,000	-	33,814	-	44,061	10,247	
TOTAL PASSED THROUGH THE GREATER NASHVILLE REGIONAL COUNCIL						3,074	54,519	-	61,692	10,247
PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY:										
Legal Assistance - Title III Priority	93.045	06-2019-13	7/01/18 - 6/30/19	\$ 36,500	-	18,300	-	18,300	-	
Legal Assistance - Title III Priority	93.045	06-2020-13	7/01/19 - 6/30/20	\$ 36,500	-	18,200	-	18,200	-	
TOTAL PASSED THROUGH THE SOUTH CENTRAL TENNESSEE DEVELOPMENT DISTRICT AREA AGENCY ON AGING AND DISABILITY						-	36,500	-	36,500	-
PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES:										
Temporary Assistance for Needy Families - SSI Representation	93.558	GR 34530-40618	7/01/18 - 6/30/19	N/A	23,012	33,478	-	10,466	-	
Temporary Assistance for Needy Families - SSI Representation	93.558	GR 34530-40618	7/01/19 - 6/30/20	N/A	-	32,740	-	62,049	29,309	
TOTAL PASSED THROUGH TENNESSEE ALLIANCE FOR LEGAL SERVICES						23,012	66,218	-	72,515	29,309
<u>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						<u>26,086</u>	<u>157,237</u>	<u>-</u>	<u>170,707</u>	<u>39,556</u>
TOTAL OF EXPENDITURES OF FEDERAL AWARDS						\$ (128,597)	\$ 4,172,975	\$ 19,936	\$ 4,502,208	\$ 180,700

(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*.

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, 2019. 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.

Summary of expenditures by CFDA number

09.643040	\$ 3,423,983
14.408	36,907
16.575	694,193
16.588	76,418
21.008	100,000
93.044	61,692
93.045	36,500
93.558	72,515
Total	<u>\$ 4,502,208</u>

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 elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance when an approved indirect cost rate has not been available.

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, 2019

	<u>Basic</u> <u>Field</u> <u>Grant</u>	<u>Private</u> <u>Attorney</u> <u>Involvement</u>	<u>VIETH</u> <u>Leadership</u> <u>Grant</u>	<u>Total</u>
SUPPORT AND REVENUE				
Grants and contracts - LSC	\$ 2,686,921	\$ 476,238	\$ -	\$ 3,163,159
Interest and investment income	416	-	-	416
Attorney fees	19,520	-	-	19,520
Donated services	-	744,582	-	744,582
Total support and revenue	<u>2,706,857</u>	<u>1,220,820</u>	<u>-</u>	<u>3,927,677</u>
PERSONNEL EXPENSES				
Lawyers	944,796	231,103	-	1,175,899
Paralegals	78,747	31,135	-	109,882
Support staff	790,072	51,622	-	841,694
Employee benefits	370,108	26,016	-	396,124
Payroll taxes	131,492	22,316	-	153,808
Total personnel expenses	<u>2,315,215</u>	<u>362,192</u>	<u>-</u>	<u>2,677,407</u>
OTHER EXPENSES				
Donated services	-	744,582	-	744,582
Court costs and litigation	51,372	3,369	-	54,741
Equipment rental and other	33,418	3,327	-	36,745
Insurance	14,276	1,341	-	15,617
Occupancy	136,739	41,360	-	178,099
Postage	6,938	1,572	-	8,510
Printing and publications	40,630	3,204	-	43,834
Professional fees and contract services	116,523	50,316	-	166,839
Supplies	81,106	2,216	-	83,322
Telephone	36,853	1,580	-	38,433
Training	40,204	4,428	10,000	54,632
Travel	64,471	1,333	-	65,804
Total other expenses	<u>622,530</u>	<u>858,628</u>	<u>10,000</u>	<u>1,491,158</u>
TOTAL EXPENSES	<u>2,937,745</u>	<u>1,220,820</u>	<u>10,000</u>	<u>4,168,565</u>
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	<u>(230,888)</u>	<u>-</u>	<u>(10,000)</u>	<u>(240,888)</u>
TOTAL CHANGES IN NET ASSETS	<u>(230,888)</u>	<u>-</u>	<u>(10,000)</u>	<u>(240,888)</u>
NET ASSETS - BEGINNING OF YEAR	<u>230,888</u>	<u>-</u>	<u>10,000</u>	<u>240,888</u>
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, 2019, 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 May 29, 2020.

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.

Handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
May 29, 2020

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

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, 2019. 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, Uniform Guidance, and 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, 2019.

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.



Nashville, Tennessee
May 29, 2020

LEGAL AID SOCIETY OF MIDDLE TENNESSEE AND THE CUMBERLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

PRIOR YEAR

2018-01 Year-End Close

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

CURRENT YEAR

There are no current year findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PRIOR YEAR

There were no prior year findings.

CURRENT YEAR

There are no current year findings.