

**Financial Statements and
Independent Auditors' Reports**



December 31, 2009

TENNESSEE ALLIANCE FOR LEGAL SERVICES

**Financial Statements and
Independent Auditors' Reports**

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RAYBURN, BATES & FITZGERALD, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
Tennessee Alliance for Legal Services

We have audited the accompanying statement of financial position of the Tennessee Alliance for Legal Services (the Alliance) as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Alliance for Legal Services as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2010 on our consideration of the Tennessee Alliance for Legal Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Tennessee Alliance for Legal Services taken as a whole. The accompanying Schedule of State Awards is presented for purposes of additional analysis in the form as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

May 24, 2010

Rayburn, Bates & Fitzgerald, P.C.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Financial Position

December 31, 2009

Assets

Cash	\$ 75,172
Accounts receivable	9,250
Grants and contracts receivable	143,930
Prepaid expenses	1,779
Office furniture and equipment, net of accumulated depreciation of \$47,273	22,755
Other assets	<u>3,700</u>
Total assets	<u>\$ 256,586</u>

Liabilities and Net Assets

Accounts payable	\$ 33,658
Grants payable	128,178
Accrued expenses	28,718
Other liabilities	<u>1,480</u>
Total liabilities	<u>192,034</u>
Net assets – unrestricted	<u>64,552</u>
Total liabilities and net assets	<u>\$ 256,586</u>

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Activities

For the Year Ended December 31, 2009

Support and Revenue:

Support:

Grants and contract income - State of Tennessee	\$ 653,498
AOC - Blue Ribbon grant	41,552
	<u>695,050</u>

Revenue:

LSC grants	16,000
Task Force training fees	2,443
NASW - TN Chapter	19,250
Equal Justice Conference	22,927
Interest income	1,387
Other income	1,415
	<u>63,422</u>

Total support and revenue	<u>758,472</u>
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Expenses:

Administrative	102,299
Board	18,000
Marketing	53,428
Task Force	55,154
Websites	43,147
TennHelp	18,587
State contracts	256,939
Blue Ribbon	43,734
Legislative and policy	85,406
Strategic planning	24,980
Equal Justice Conference	76,126
	<u>777,800</u>

Total expenses	<u>777,800</u>
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Change in net assets	(19,328)
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Net assets, January 1, 2009	<u>83,880</u>
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Net assets, December 31, 2009	<u>\$ 64,552</u>
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See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Functional Expenses

For the Year Ended December 31, 2009

	Administrative	Board	Marketing	Task Force	Websites	TennHelp	State Contracts	Blue Ribbon	Legislative and Policy	Strategic Planning	Equal Justice Conference	Total
Salaries and taxes	\$ 56,762	8,752	31,961	26,994	25,582	12,601	13,493	12,460	41,990	9,377	24,710	264,682
Employee benefits	10,825	887	7,302	6,274	7,210	2,135	2,312	2,467	8,799	1,959	6,023	56,193
Grant expenses	-	-	-	-	-	-	236,131	-	-	-	-	236,131
Professional fees	11,198	541	1,972	5,513	1,574	578	799	764	17,939	10,205	3,433	54,516
Conference calls	-	1,208	-	1,263	174	-	-	-	-	-	-	2,645
Marketing	-	-	1,576	-	-	-	-	-	-	-	-	1,576
TennHelp	-	-	-	-	-	212	-	-	-	-	-	212
Equal Justice Conference	-	-	-	-	-	-	-	-	-	-	32,625	32,625
CLE ProBono	-	-	-	-	-	-	-	23,862	-	-	-	23,862
Task force	-	-	-	5,612	-	-	-	-	-	-	-	5,612
Staff travel	2,096	775	569	1,025	261	117	131	286	2,336	483	867	8,946
Rent	6,428	994	3,624	3,056	2,893	1,062	1,469	1,405	4,667	1,066	2,771	29,435
Office supplies	1,213	189	684	577	546	200	277	265	881	201	523	5,556
Insurance	920	131	478	403	381	140	194	185	615	141	365	3,953
Telephone and internet	2,404	371	1,355	1,143	1,082	397	549	525	2,232	399	1,036	11,493
Postage	38	6	22	18	17	6	9	9	28	6	17	176
Dues and subscriptions	714	110	403	340	322	118	163	156	519	118	308	3,271
Printing and copying	1,422	189	689	580	550	202	279	267	887	203	527	5,795
Computer and website	3,431	292	1,065	898	1,175	312	432	413	1,371	313	815	10,517
Board of Directors	-	3,082	-	-	-	-	-	-	-	-	785	3,867
Staff costs	972	21	77	66	62	23	32	30	1,016	23	59	2,381
Other	948	-	-	-	-	-	-	-	-	-	-	948
Depreciation	2,928	452	1,651	1,392	1,318	484	669	640	2,126	486	1,262	13,408
Total expenses	\$ 102,299	18,000	53,428	55,154	43,147	18,587	256,939	43,734	85,406	24,980	76,126	777,800

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Cash Flows

For the Year Ended December 31, 2009

Cash flows from operating activities:	
Change in net assets	\$ (19,328)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	13,408
Increase in accounts receivable	(4,250)
Increase in grants receivable	(21,873)
Decrease in prepaid expenses	72
Increase in accounts payable	25,766
Decrease in grants payable	(189)
Increase in accrued expenses	<u>2,861</u>
Net cash used by operating activities	<u>(3,533)</u>
Cash flows from investing activities:	
Purchase of office furniture and equipment	<u>(2,294)</u>
Net cash used by investing activities	<u>(2,294)</u>
Net decrease in cash and cash equivalents	(5,827)
Cash and cash equivalents at beginning of year	<u>80,999</u>
Cash and cash equivalents at end of year	<u><u>\$ 75,172</u></u>

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements

December 31, 2009

(1) Organization and Purpose

Tennessee Alliance for Legal Services is a nonprofit organization that provides support to the Legal Aid Societies in Tennessee for training, coordination, education and communication.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The Tennessee Alliance for Legal Services prepares its financial statements and maintains its financial accounting records on the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Alliance considers all cash on deposit, money market funds and highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Grant Revenue

Grant awards are recognized when the grantor makes a promise to give to the Alliance that is, in substance, unconditional. Grant awards that are restricted by the grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the grant awards are recognized. All other grantor-restricted grant awards are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Alliance has no temporarily or permanently restricted net assets.

Office Furniture and Equipment

Office furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over an estimated useful life of three to five years. Maintenance and repairs are charged to expense as incurred. Major purchases and betterments are capitalized.

Income Taxes

The Alliance is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements, (Continued)

December 31, 2009

(2) Summary of Significant Accounting Policies, (Continued)

Fair Values

The Alliance has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities and third party information. Valuation adjustments may be made to ensure that financial and non-financial instruments are recorded at fair value. Furthermore, while the Alliance believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial and non-financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial and non-financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are explained as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial or non-financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2009 the Alliance had no financial or non-financial instruments recorded at fair value.

(3) Employee Benefit Plan

The employees of the Alliance are covered under a simplified employee pension (SEP) plan and a 403(b) tax-deferred annuity (TDA) plan with Mutual America. Payments are made by the Alliance to the SEP plan on behalf of all employees based upon their compensation. The contributions were \$13,129 for the year ended December 31, 2009. Employees can contribution up to the allowable amount to the SEP or TDA plans.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements, (Continued)

December 31, 2009

(4) Operating Lease

The Alliance entered into a lease agreement for its office space on July 17, 2007. The term of the agreement is September 1, 2007 through August 31, 2012. The Alliance subleases a portion of its office space to the National Association of Social Workers and Tennessee Citizen Action, Inc. Rent paid applicable to the office facility leases in 2009 was \$48,553 and sublease rentals were \$19,119.

The Alliance's future minimum lease payments for office space are as follows:

Year ending December 31,	Lease Rentals	Less Sub-lease Rentals	Net Lease Commitments
2010	\$ 46,502	(18,601)	27,901
2011	47,432	(18,973)	28,459
2012	32,040	(12,816)	19,224
	<u>\$ 125,974</u>	<u>(50,390)</u>	<u>75,584</u>

The Alliance entered into an operating agreement on November 9, 2006 for a copy machine. The term of the lease was for 51 months. Total lease payments for office equipment were \$3,873 in 2009.

The Alliance's future minimum lease payments for office equipment are as follows:

Year ending December 31,	
2010	\$ 4,056
2011	<u>338</u>
	<u>\$ 4,394</u>

(5) Line of Credit

Subsequent to December 31, 2009, the Alliance obtained an unsecured line of credit with a regional bank with an available balance of \$30,000. The interest rate adjusts daily based on Wall Street Journal prime rate, and this line expires January 25, 2011.

(6) Donated Services

Officers, members of the Board of Directors, and other members of the Alliance have assisted the Alliance in the accomplishment of its goals and objectives by the donation of their time and services. No amounts have been reflected in the financial statements as it was not practicable to determine the valuation of such services to the Alliance, and the Alliance exercises no significant control over the major elements of donated services.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements, (Continued)

December 31, 2009

(7) Concentration

Substantially, all of the Alliance's receivables are from the State of Tennessee, Department of Children's Services, State of Tennessee, Department of Human Services, and the State of Tennessee, Administrative Office of the Courts. Approximately 92% of support and revenues was derived from these three agencies during the year ended December 31, 2009. These concentrations expose the Alliance to vulnerability and reliance on these agencies.

(8) Consultant Commitment

The Alliance has an agreement with a consultant to represent them on public policy issues impacting access to civil justice, legal aid and legal services programs and other providers of civil legal assistance and the clients they assist. The Alliance has a commitment to pay the consultant \$38,500 for the calendar year 2010 for services and expenses. During 2009, the Alliance paid \$38,500 to the consultant.

(9) Subsequent Events

Management has evaluated subsequent events through May 24, 2010, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Schedule of State Awards

For the Year Ended December 31, 2009

	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Contract Period</u>	<u>Contract Amount</u>	<u>Contract Funds Receivable December 31, 2008</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2009</u>
State of Tennessee:								
Department of Children's Services -								
DCS Litigation	State	FA00415324-00	07/01/03 - 06/30/08	\$ 1,008,334	\$ 23,606	23,606	-	-
DCS Litigation	State	FA00415324-00	07/01/08 - 06/30/13	750,000	60,185	98,039	115,558	77,704
Department of Human Services -								
DHS Social Security Project	State	-	07/01/07 - 06/30/10	1,320,000	15,663	104,884	137,269	48,048
Administrative Office of the Courts -								
Civil Legal Representation of								
Indigents Funds	State	-	07/01/09 - 06/30/10	-	-	391,531	391,531	-
Blue Ribbon Grant	State	-	12/13/07 - 12/12/10	89,633	6,603	29,977	41,552	18,178
Department of Finance and Administration -								
Bureau of TennCare	State	-	04/01/08 - 12/31/08	300,000	<u>16,000</u>	<u>25,200</u>	<u>9,200</u>	<u>-</u>
					<u>\$ 122,057</u>	<u>673,237</u>	<u>695,110</u>	<u>143,930</u>

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Board of Directors
Tennessee Alliance for Legal Services

We have audited the financial statements of Tennessee Alliance for Legal Services (the Alliance) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 24, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alliance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of the Alliance's internal control over financial reporting.

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 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 Alliance's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance'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 Standard*.

We noted certain matters that we reported to management of the Alliance in a separate letter dated May 24, 2010.

This report is intended solely for the information and use of the management, Board of Directors and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

May 24, 2010

Reynolds, Butler & Fitzgerald, P.C.