

# **Financial Statements and Independent Auditors' Reports**



**December 31, 2011**

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Financial Statements and  
Independent Auditors' Reports**

**December 31, 2011**

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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, 2011, 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, 2011, 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.

The accompanying financial statements have been prepared assuming that the Alliance will continue as a going concern. As discussed in note 10 to the financial statements, the Alliance has reported expenses exceeding revenue and support for each of the three years in the period ending December 31, 2011 and liabilities exceed assets at December 31, 2011 which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2012 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 Expenditures 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.

June 4, 2012

*Rayburn, Bates & Fitzgerald, P.C.*

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Financial Position

December 31, 2011

### Assets

Cash	\$	7,328
Accounts receivable		5,314
Grants and contracts receivable		160,892
Prepaid expenses		6,883
Office furniture and equipment, net of accumulated depreciation of \$65,169		26,361
Other assets		<u>3,700</u>
Total assets	\$	<u>210,478</u>

### Liabilities and Deficit

Accounts payable	\$	34,022
Legal assistance payable		195,146
Accrued expenses		23,688
Other liabilities		1,480
Line of credit (note 5)		<u>30,000</u>
Total liabilities		284,336
Deficit		<u>(73,858)</u>
Total liabilities and deficit	\$	<u>210,478</u>

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Activities

For the Year Ended December 31, 2011

### Support and Revenue:

#### Support-

Grants and contract income - State of Tennessee	\$ 751,278
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#### Revenue:

Task Force training fees	1,600
NASW - TN Chapter	18,500
Equal Justice Conference	47,274
Legal aid - library projects	13,425
Online Tennessee Justice	16,500
Interest income	299
Gain from disposal of office furniture and equipment	563
Other income	6,846
	<u>105,007</u>

Total support and revenue	<u>856,285</u>
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#### Expenses:

Administrative	96,532
Board	24,678
Marketing	49,616
Task Force	56,513
Websites	77,031
TennHelp	18,022
State contracts	382,080
Library projects	35,904
Legislative and policy	77,984
Strategic planning	13,719
Disaster recovery	9,751
Equal Justice Conference	68,304
	<u>910,134</u>

Total expenses	<u>910,134</u>
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Change in net assets	(53,849)
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Deficit, January 1, 2011	<u>(20,009)</u>
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Deficit, December 31, 2011	<u><u>\$ (73,858)</u></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, 2011**

	Administrative	Board	Marketing	Task Force	Websites	TennHelp	State Contracts	Library Projects	Legislative and Policy	Strategic Planning	Disaster Recovery	Equal Justice Conference	Total
Salaries and taxes	\$ 51,150	14,723	31,957	28,459	40,766	11,229	22,891	23,602	36,600	1,420	6,469	28,955	298,221
Employee benefits	14,031	2,807	8,018	8,510	11,660	3,727	6,559	5,797	10,534	252	1,411	7,777	81,083
Legal assistance	-	-	-	-	-	-	346,319	-	-	-	-	-	346,319
Professional fees	9,368	1,142	2,477	6,112	3,157	866	1,771	1,830	18,451	9,864	503	4,195	59,736
Conference calls	2,268	987	-	236	489	-	-	-	-	-	-	-	3,980
Marketing	-	-	898	-	-	-	-	-	1,579	-	-	-	2,477
Equal Justice Conference	-	-	-	-	-	-	-	-	-	-	-	20,931	20,931
Task force	-	-	-	5,850	-	-	-	-	-	-	-	-	5,850
Staff travel	123	204	-	214	-	-	40	-	35	-	-	326	942
Rent	5,056	1,275	2,766	2,804	3,525	966	1,977	2,043	4,522	964	562	2,674	29,134
Office supplies	696	218	381	387	486	133	273	328	624	133	138	413	4,210
Insurance	569	144	311	316	397	109	222	230	509	108	63	300	3,278
Telephone and internet	1,109	280	606	1,391	773	212	433	448	1,487	211	123	587	7,660
Postage	62	16	34	35	44	12	24	25	56	12	7	33	360
Dues and subscriptions	737	91	198	201	268	69	141	146	343	69	40	192	2,495
Printing and copying	437	-	-	-	-	-	22	-	-	-	-	-	459
Computer and website	1,157	182	394	400	13,458	148	282	291	645	137	80	380	17,554
Board of Directors	-	1,842	-	-	-	-	-	-	-	-	-	-	1,842
Staff costs	1,554	-	-	-	-	-	-	-	-	-	35	-	1,589
Interest expense	788	-	-	-	-	-	-	-	-	-	-	-	788
Bank fees	2,217	-	-	-	-	-	-	-	-	-	-	-	2,217
Miscellaneous	2,329	40	-	-	-	-	-	-	22	-	-	17	2,408
Depreciation	2,881	727	1,576	1,598	2,008	551	1,126	1,164	2,577	549	320	1,524	16,601
Total expenses	\$ 96,532	24,678	49,616	56,513	77,031	18,022	382,080	35,904	77,984	13,719	9,751	68,304	910,134

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Cash Flows

For the Year Ended December 31, 2011

Cash flows from operating activities:	
Change in net assets	\$ (53,849)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	16,601
Gain from disposal of office furniture and equipment	(563)
Decrease in accounts receivable	4,360
Increase in grants receivable	(30,338)
Increase in prepaid expenses	(5,661)
Increase in accounts payable	22,985
Increase in legal assistance payable	14,527
Decrease in accrued expenses	<u>(7,759)</u>
Net cash used by operating activities	<u>(39,697)</u>
Cash flows from investing activities:	
Purchase of office furniture and equipment	(2,713)
Proceeds from disposal of office furniture and equipment	<u>976</u>
Net cash used by investing activities	<u>(1,737)</u>
Cash flows from financing activities:	
Proceeds from line of credit advances	<u>30,000</u>
Net cash provided by financing activities	<u>30,000</u>
Net decrease in cash and cash equivalents	(11,434)
Cash and cash equivalents at beginning of year	<u>18,762</u>
Cash and cash equivalents at end of year	<u>\$ 7,328</u>

See accompanying notes to financial statements.



# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Notes to Financial Statements

December 31, 2011

(1) Organization and Purpose

Tennessee Alliance for Legal Services is a non-profit 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-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, 2011

(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 assets and liabilities 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 assets and liabilities 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. An assets and liabilities 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, 2011 the Alliance had no assets and liabilities recorded at fair value.

(3) Employee Benefit Plans

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 \$13,964 for the year ended December 31, 2011. Employees can contribute up to the allowable amount to the SEP or TDA plans.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Notes to Financial Statements, (Continued)

December 31, 2011

(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 2011 was \$48,478 and sublease rentals were \$19,345. Subsequent to year end the Alliance amended the lease agreement to extend the term of the lease through July 31, 2015.

The Alliance's future minimum lease payments at December 31, 2011 for office space are as follows:

Year ending December 31,	Lease Rentals	Less Sub-lease Rentals	Net Lease Commitments
2012	\$ 47,235	(11,214)	36,021
2013	46,080	-	46,080
2014	46,080	-	46,080
2015	26,880	-	26,880
	\$ 166,275	(11,214)	155,061

The Alliance entered into an operating agreement on November 30, 2010 for a copy machine. The term of the lease was for \$290 per month for 60 months. Total lease payments for office equipment were \$5,420 in 2011.

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

Year ending December 31,	
2012	\$ 3,480
2013	3,480
2014	3,480
2015	3,190
	\$ 13,630

(5) Line of Credit

The Alliance has 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 with a minimum of 5.75% and this line expires January 25, 2013. At December 31, 2011, draws totaling \$30,000 were outstanding on the line of credit.

(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, 2011

(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 88% of support and revenues was derived from these three agencies during the year ended December 31, 2011. 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 had a commitment to pay the consultant \$36,000 for the calendar year 2011 for services and expenses.

(9) Subsequent Events

Management has evaluated subsequent events through June 4, 2012, the date on which the financial statements were available to be issued.

(10) Going Concern

As a result of expenses exceeding revenue and support for each of the three years in the period ended December 31, 2011 and liabilities exceeding assets at December 31, 2011 there is substantial doubt about the Alliance's ability to continue as a going concern. Management has implemented or plans to implement the following actions:

- Eliminated the Development and Outreach Director and the Website and Communications Director positions in 2011.
- Froze staff salary increases starting August 1, 2011.
- Reduced the level of contribution to the employee benefit plan effective November 1, 2011.
- Eliminated all extraneous cost items in the budget, collected all credit cards into check-out system, held travel and training costs to a minimum.
- Office expenses have been reduced by changing phone vendors and renegotiating the office lease.
- For the Equal Justice Conference, the Alliance will solicit donations from law firms, corporations and partners and seek discounts from all vendors.
- Reduced the hours of the Contracts and Services Coordinator to 25 hours per week. This continued until May 15, 2012.
- The Board has approved changes in the Alliance's benefits policy to reduce agency out-of-pocket costs effective January 1, 2012. This has significantly reduced monthly cash outflows for the Alliance.
- Actively seeking additional funding for projects.
- The Alliance is contracting with West Tennessee Legal Services on a federal grant from the Legal Services Corporation. Though it was delayed for eight months in 2011, the Alliance bills monthly on the grant and is generating revenue. The total for the Alliance over 2 years is approximately \$54,000 and the majority of the reimbursement will be in the first year of the grant.

Management feels confident the above actions will enable the continued operations in the foreseeable future.

## **SUPPLEMENTAL INFORMATION**

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Schedule of Expenditures of State Awards**

**For the Year Ended December 31, 2011**

<u>Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Contract Period</u>	<u>Contract Amount</u>	<u>Contract Funds Receivable December 31, 2010</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2011</u>
State of Tennessee:								
Department of Children's Services - DCS Litigation	N/A	359.10-187-09	07/01/08 - 06/30/13	\$ <u>750,000</u>	\$ 35,788	104,988	115,123	45,923
Department of Human Services - DHS Social Security Project	N/A	GR 0821693	07/01/07 - 06/30/12	\$ <u>1,880,000</u>	94,766	242,919	263,122	114,969
Administrative Office of the Courts - Civil Legal Representation of Indigents Funds	N/A	-	07/01/11 - 06/30/12	\$ <u>-</u>	-	373,033	373,033	-
					\$ <u>130,554</u>	<u>720,940</u>	<u>751,278</u>	<u>160,892</u>

**Basis of Presentation:**

The accompanying Schedule of Expenditures of State Awards summarizes the expenditures of Tennessee Alliance for Legal Services under programs of the state government for the year ended December 31, 2011. The schedule is presented using the accrual basis of accounting.

**RAYBURN, BATES & FITZGERALD, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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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, 2011, and have issued our report thereon dated June 4, 2012. 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.

The financial statements have been prepared assuming that the Alliance will continue as a going concern. As discussed in note 10 to the financial statements, the Alliance has reported expenses exceeding revenue and support for each of the three years in the period ending December 31, 2011 and liabilities exceeding assets at December 31, 2011 which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**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 a certain matter that we reported to management of the Alliance in a separate letter dated June 4, 2012.

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.

June 4, 2012

*Rayburn, Bates & Fitzgerald, P.C.*