

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



**December 31, 2013**

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Financial Statements and  
Reports of Independent Auditors**

**December 31, 2013**

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

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**Report of Independent Auditors**

To the Board of Directors  
Tennessee Alliance for Legal Services

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Tennessee Alliance for Legal Services (the Alliance), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**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.

**Auditors' Responsibility**

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 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 entity'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 entity'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 the Alliance as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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 15, 2014, on our consideration of the Alliance'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance.

May 15, 2014

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

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Financial Position

December 31, 2013

### Assets

Cash	\$ 148,856
Accounts receivable	23,526
Grants and contracts receivable	36,685
Prepaid expenses	5,933
Office furniture and equipment, net of accumulated depreciation of \$84,696	6,659
Other assets	<u>3,700</u>
Total assets	<u>\$ 225,359</u>

### Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 5,207
Legal assistance payable	41,159
Accrued expenses	18,892
Deferred revenue	95,333
Other liabilities	<u>1,480</u>
Total liabilities	162,071
Net assets	<u>63,288</u>
Total liabilities and net assets	<u>\$ 225,359</u>

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Activities

For the Year Ended December 31, 2013

Support and revenue:	
Support -	
Grants and contract income	\$ <u>518,355</u>
Revenue:	
Task Force training fees	1,123
Equal Justice Conference	48,378
LIFT Website	44,695
Online Tennessee Justice	2,667
aLEGALz	25,000
Interest income	52
Other income	10,733
	<u>132,648</u>
Total support and revenue	<u>651,003</u>
Expenses:	
Administrative	39,994
Fundraising	43,902
Outreach	59,851
Task Force	36,781
State contracts	120,465
LIFT Website	8,270
Legislative and policy	93,749
Online Tennessee Justice	21,305
aLEGALz	75,421
Equal Justice Conference	84,947
	<u>584,685</u>
Total expenses	<u>584,685</u>
Change in net assets	66,318
Deficit, January 1, 2013	<u>(3,030)</u>
Net assets, December 31, 2013	\$ <u><u>63,288</u></u>

See accompanying notes to financial statements.

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Statement of Functional Expenses**

**For the Year Ended December 31, 2013**

	Administrative	Fundraising	Outreach	Task Force	State Contracts	LIFT Website	Legislative and Policy	Online Tennessee Justice	aLEGALz	Equal Justice Conference	Total
Salaries and taxes	\$ 22,087	30,798	38,325	20,586	10,066	-	38,299	13,100	51,494	36,540	261,295
Employee benefits	3,087	4,313	6,002	4,128	1,308	-	8,520	1,706	7,273	5,959	42,296
Legal assistance	-	-	-	-	106,498	-	-	-	-	-	106,498
Professional fees	3,022	2,327	2,244	4,839	513	-	31,545	667	2,620	3,756	51,533
Conference calls	91	120	146	93	38	-	259	50	196	146	1,139
Outreach	-	-	850	-	-	154	14	301	600	-	1,919
Equal Justice Conference	-	-	-	-	-	-	-	-	-	30,783	30,783
CLE filing expense	-	-	-	-	-	-	-	1,219	-	-	1,219
Task force	-	-	-	1,515	-	51	-	-	-	-	1,566
Staff travel	48	-	1,823	-	19	1,665	105	197	473	7	4,337
Rent	2,217	2,915	3,535	2,249	930	-	6,285	1,210	4,753	3,549	27,643
Office supplies	80	106	128	81	34	-	227	44	172	128	1,000
Insurance	256	337	408	260	107	-	726	702	549	410	3,755
Telephone and internet	552	406	492	1,042	129	-	876	169	1,847	494	6,007
Postage	44	57	70	44	18	-	124	24	93	70	544
Dues and subscriptions	64	85	102	65	27	-	182	35	138	103	801
Printing and copying	355	456	1,021	351	145	-	982	753	817	555	5,435
Computer and website	2,669	873	1,059	673	279	6,400	1,882	668	1,423	1,063	16,989
Board of Directors	178	-	-	-	-	-	-	-	-	-	178
Staff costs	1,345	-	2,302	-	-	-	1,280	-	1,165	29	6,121
Interest expense	758	-	-	-	-	-	-	-	-	-	758
Bank fees	238	-	-	-	-	-	-	-	-	-	238
Miscellaneous	2,060	-	-	-	-	-	53	-	-	5	2,118
Depreciation	843	1,109	1,344	855	354	-	2,390	460	1,808	1,350	10,513
Total expenses	\$ 39,994	43,902	59,851	36,781	120,465	8,270	93,749	21,305	75,421	84,947	584,685

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Cash Flows

For the Year Ended December 31, 2013

Cash flows from operating activities:	
Change in net assets	\$ 66,318
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	10,513
Increase in accounts receivable	(16,114)
Decrease in grants receivable	8,525
Increase in prepaid expenses	(531)
Increase in accounts payable	4,437
Decrease in legal assistance payable	(13,078)
Decrease in accrued expenses	(3,031)
Increase in deferred revenue	<u>70,333</u>
Net cash provided by operating activities	127,372
Cash flows from investing activities-	
Purchase of office furniture and equipment	<u>(6,767)</u>
Net cash used by investing activities	<u>(6,767)</u>
Cash flows from financing activities-	
Payments of line of credit	<u>(30,000)</u>
Net cash used by financing activities	<u>(30,000)</u>
Net increase in cash and cash equivalents	90,605
Cash and cash equivalents at beginning of year	<u>58,251</u>
Cash and cash equivalents at end of year	<u><u>\$ 148,856</u></u>

See accompanying notes to financial statements.



# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Notes to Financial Statements

December 31, 2013

(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 (the Alliance) 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.

Revenue Recognition

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.

The Alliance has been awarded 25% of the State of Tennessee's Civil Legal Representation of Indigents Fund (the Indigent Fund) to provide assistance, support and education to those organizations that provide civil legal representation to the indigent. The Indigent Fund is based on a set fee per case privilege tax on civil litigation in Tennessee courts below the level of the Court of Appeals or Supreme Court. Accordingly, the amount of revenue from the Indigent Fund is recognized when realized.

Receivables

Receivable are from customers of the Alliance related to rent, grants, contracts and other Alliance activities and are financed as unsecured short-term receivables. Accounts are invoiced monthly or quarterly and are due upon receipt. The Alliance uses the allowance method to determine uncollectible receivables. The allowance is based on management's analysis of specific receivables. No allowance was deemed necessary at December 31, 2013.

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.

With few exceptions, the Alliance is no longer subject to U.S. Federal, state, or local income tax examinations by authorities for years before December 31, 2010.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Notes to Financial Statements, (Continued)

December 31, 2013

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

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.

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, 2013 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 \$5,721 for the year ended December 31, 2013. 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, 2013

(4) Operating Leases

The Alliance entered into a lease agreement for its office space on July 17, 2007. The original term of the agreement was September 1, 2007 through August 31, 2012. The lease agreement was amended in 2012 to extend the term of the lease through July 31, 2015. 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 2013 was \$45,901 and sublease rentals were \$18,258.

The Alliance's future minimum lease payments at December 31, 2013 for office space are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Lease</u> <u>Rentals</u>	Less <u>Sub-lease</u> <u>Rentals</u>	<u>Net Lease</u> <u>Commitments</u>
2014	\$ 46,080	(15,206)	30,874
2015	26,880	(8,870)	18,010
	<u>\$ 72,960</u>	<u>(24,076)</u>	<u>48,884</u>

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 \$4,394 in 2013.

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

<u>Year Ending</u> <u>December 31,</u>	
2014	\$ 3,480
2015	3,190
	<u>\$ 6,670</u>

(5) Line of Credit

The Alliance had 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%. This line of credit expired February 28, 2014. At December 31, 2013, there was no outstanding balance 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, 2013

(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 80% of support and revenues was derived from these three agencies during the year ended December 31, 2013. These concentrations expose the Alliance to vulnerability and reliance on these agencies.

(8) Consultant Commitment

Presently, 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 cost of such future services is \$36,000. The Alliance paid the consultant \$36,000 for the calendar year 2013 for services and expenses.

(9) Subsequent Events

Management has evaluated subsequent events through May 15, 2014, the date on which the financial statements were available to be issued.

## **SUPPLEMENTAL INFORMATION**

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Schedule of Expenditures of Governmental Awards**

**For the Year Ended December 31, 2013**

<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, 2012</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2013</u>
State of Tennessee and Federal:								
Department of Children's Services - DCS Litigation	N/A	359.10-187-09	07/01/08 - 06/30/13	\$ <u>750,000</u>	\$ 22,884	22,884	-	-
Department of Children's Services - DCS Litigation	N/A	359.10-100-72	07/01/13 - 06/30/18	\$ <u>750,000</u>	-	28,078	48,234	20,156
Department of Human Services - DHS Social Security Project	N/A	GR 1338126	07/01/12- 06/30/14	\$ <u>300,000</u>	22,326	75,342	69,875	16,859
					<u>45,210</u>	<u>126,304</u>	<u>118,109</u>	<u>37,015</u>
State of Tennessee Only:								
Administrative Office of the Courts - Civil Legal Representation of Indigents Funds	N/A	-	07/01/12 - 06/30/14	\$ <u>-</u>	-	356,151	356,151	-
Administrative Office of the Courts - aLEGALz	N/A	-	01/01/13 - 12/31/15	\$ <u>133,276</u>	-	44,425	44,425	-
					<u>-</u>	<u>400,576</u>	<u>400,576</u>	<u>-</u>
					\$ <u>45,210</u>	<u>526,880</u>	<u>518,685</u>	<u>37,015</u>

**Basis of Presentation:**

The accompanying Schedule of Expenditures of Governmental Awards summarizes the expenditures of Tennessee Alliance for Legal Services under programs of the state and federal governments for the year ended December 31, 2013. The schedule is presented using the accrual basis of accounting and includes grants and other legally directed funds.

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

— CERTIFIED PUBLIC ACCOUNTANTS —

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**REPORT OF INDEPENDENT AUDITORS 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, in accordance with the 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 the Tennessee Alliance for Legal Services (the Alliance), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Alliance'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 Alliance'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 Alliance'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 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 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We noted certain matters that we reported to management of the Alliance in a separate letter dated May, 15, 2014.

May 15, 2014

*Angela, Bator & Fitzpatrick, P.C.*