

Tennessee Alliance for Legal Services

Financial Statements
For the Year Ended December 31, 2022

Tennessee Alliance for Legal Services
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For the Year Ended December 31, 2022

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Independent Auditor's Report

Board of Directors
Tennessee Alliance for Legal Services

Opinion

We have audited the financial statements of Tennessee Alliance for Legal Services (TALS), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TALS as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TALS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TALS's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts, and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 TALS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TALS's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Nashville, Tennessee
October 26, 2023

Tennessee Alliance for Legal Services

Statement of Financial Position

December 31, 2022

Assets

Current assets

Cash and cash equivalents	\$ 402,853
Investments	93,120
Accounts receivable	1,203
Grants and contracts receivable	49,456
Prepaid expenses	5,845
Total current assets	552,477

Operating lease right-of-use assets

38,594

Office furniture and equipment, net of accumulated depreciation

totaling \$109,069

4,582

Other assets

3,700

Total assets

\$ 599,353

Liabilities and Net Assets

Current liabilities

Accounts payable and accrued expenses	\$ 41,492
Grants payable	34,877
Deferred revenue	44,373
Operating lease liabilities	38,793
Total current liabilities	159,535

Net assets

Without donor restrictions

439,818

Total liabilities and net assets

\$ 599,353

Tennessee Alliance for Legal Services
Statement of Activities
For the Year Ended December 31, 2022

Net Assets Without Donor Restrictions

Support and Revenues

Contributions of cash and other financial assets	
Government grants and contract income	\$ 1,141,505
Grants and contract income	181,949
Other contributions	4,490
Contributions of nonfinancial assets	34,828
Equal Justice University Conference	68,070
Sublease income	31,239
Other income	636
Interest income	485
Investment loss, net	(16,002)
Total support and revenues	<u>1,447,200</u>

Expenses

Program services	1,165,996
Support services	
Administrative	263,032
Fundraising	26,859
Outreach	7,329
Total expenses	<u>1,463,216</u>

Change in net assets	(16,016)
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Net assets without donor restrictions, beginning of year	<u>455,834</u>
Net assets without donor restrictions, end of year	\$ 439,818

Tennessee Alliance for Legal Services
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services							
	Task Force	State Contracts	HELP-4TN.org	Legislative and Policy	TN Free Legal Answers	1-844-HELP4TN	Honoring Choices Tennessee	Equal Justice University
Legal assistance	\$ -	\$ 304,816	\$ -	\$ -	\$ -	\$ 83,968	\$ 17,515	\$ -
Salaries and taxes	407	41,291	4,178	-	5,072	141,703	-	26,144
Depreciation	8	742	75	-	91	2,549	-	472
Donated program services	-	-	498	-	29,455	4,875	-	-
Dues and subscriptions	5	520	52	-	64	2,034	-	331
Employee benefits	246	4,618	421	-	483	15,460	-	1,947
Information technology	13	2,056	164	-	154	4,293	-	795
Insurance	2	798	20	-	24	683	-	127
Meeting costs	-	-	-	-	-	-	-	-
Office supplies	1	238	14	-	16	2,708	-	717
Other events	6	-	-	-	-	-	-	53,852
Outreach	142	526	-	-	-	39,217	-	3,605
Postage	-	17	2	-	2	94	-	16
Printing and reproduction	2	188	19	-	23	806	-	119
Professional fees	44	82,302	431	36,533	524	49,610	-	10,241
Rent	64	11,182	621	-	756	21,121	-	3,912
Staff costs	-	116	-	-	-	944	-	-
Staff travel	-	189	-	-	-	22	-	3,318
Taxes, fees, and licenses	-	2	-	150	-	8	-	1
Telephone and internet	3	247	25	-	30	849	-	157
Bank fees	-	2	-	-	-	7	-	4
Indirect allocation, grants	-	1,170	-	-	-	12,148	-	-
	\$ 943	\$ 451,020	\$ 6,520	\$ 36,683	\$ 36,694	\$ 383,099	\$ 17,515	\$ 105,758

Continued

Tennessee Alliance for Legal Services
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program Services				Supporting Services				Total
	Equal Justice Works Fellowship	Equal Justice Works DR Fellowship	General programs	Total Programs	Administrative	Financial Development	External Outreach	Total Support	
Legal and assistance	\$ -	\$ -	\$ -	\$ 406,299	\$ 92	\$ -	\$ -	\$ 92	\$ 406,391
Salaries and taxes	54,516	3,813	907	278,031	171,231	19,168	4,997	195,396	473,427
Depreciation	976	68	16	4,997	3,090	345	90	3,525	8,522
Donated program services	-	-	-	34,828	-	-	-	-	34,828
Dues and subscriptions	683	48	11	3,748	2,163	242	63	2,468	6,216
Employee benefits	1,515	353	660	25,703	31,154	1,312	664	33,130	58,833
Information technology	1,643	115	426	9,659	10,203	581	152	10,936	20,595
Insurance	262	18	4	1,938	828	93	24	945	2,883
Meeting costs	-	-	-	-	659	-	-	659	659
Office supplies	1,573	12	3	5,282	122	62	16	200	5,482
Other events	-	-	-	53,858	231	-	-	231	54,089
Outreach	88	-	678	44,256	4,283	-	-	4,283	48,539
Postage	23	2	24	180	110	8	2	120	300
Printing and reproduction	247	17	4	1,425	778	87	23	888	2,313
Professional fees	5,609	392	40,993	226,679	19,474	1,984	519	21,977	248,656
Rent	8,085	565	134	46,440	25,797	2,860	749	29,406	75,846
Staff costs	50	-	-	1,110	4,871	-	-	4,871	5,981
Staff travel	607	-	2,205	6,341	216	-	-	216	6,557
Taxes, fees, and licenses	3	-	60	224	10	1	-	11	235
Telephone and internet	325	23	5	1,664	1,028	115	30	1,173	2,837
Bank fees	3	-	1	17	9	1	-	10	27
Indirect allocation, grants	-	-	-	13,317	(13,317)	-	-	(13,317)	0
	\$ 76,208	\$ 5,426	\$ 46,131	\$ 1,165,996	\$ 263,032	\$ 26,859	\$ 7,329	\$ 297,220	\$ 1,463,216

Tennessee Alliance for Legal Services
Statement of Cash Flows
For the Year Ended December 31, 2022

Cash and cash equivalents, beginning of year	\$ 890,258
Cash flows from operating activities	
Change in net assets	(16,016)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	8,523
Noncash lease expense	199
Unrealized loss on investments, net	20,911
Change in:	
Accounts receivable	578
Grants and contracts receivable	258,639
Prepaid expenses	42,243
Accounts payable and accrued expenses	(191,655)
Grants payable	(262,653)
Deferred revenue	(343,265)
Net cash provided (used) by operating activities	(482,496)
Cash flows from investing activities	
Purchase of investments	(4,909)
Net change in cash and cash equivalents	(487,405)
Cash and cash equivalents, end of year	\$ 402,853

Tennessee Alliance for Legal Services
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1. Summary of Significant Accounting Policies

Organization and Nature of Activities

Tennessee Alliance for Legal Services (TALS) is a statewide nonprofit corporation that strengthens the delivery of civil legal help to vulnerable Tennesseans by serving as a statewide coordination point for civil justice issues; educating policy makers, advocates, and the public about civil justice issues; and connecting vulnerable Tennesseans with civil legal help.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Financial Statement Presentation

The net assets of TALS are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of TALS and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of TALS. These net assets may be used at the discretion of TALS's management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of TALS or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. TALS had no net assets with donor restrictions at December 31, 2022.

Use of Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, TALS defines cash to include only cash on hand and deposits in banks. Funds held with investment brokers are considered investments in the financial statements. TALS considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at their readily determinable fair market value in accordance with the *Certain Investments Held by Not-for-Profit Organizations* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Tennessee Alliance for Legal Services
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1. Summary of Significant Accounting Policies

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 – Fair value is determined using quoted market prices in active markets for similar assets and liabilities.

Level 3 – Fair value is determined using unobservable market prices in a market that is typically inactive

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 should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Mutual Funds – Valued at the net unit value of the shares held by TALS at year-end based on the underlying fund closing price.

No changes in the valuation methodologies were made during 2022.

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 TALS's 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 instruments could result in a different estimate of fair value at the reporting date.

Receivables

Receivables consist primarily of grant reimbursement requests submitted but not yet paid at year end. Accounts receivable and grants and contracts receivable are reviewed periodically as to their collectability. Management provides for losses on receivables using the allowance method. Based on collection experience and management's review, no allowance for doubtful accounts is considered necessary at year end.

Office Furniture and Equipment

Office furniture and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from three to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Major purchases and betterments are capitalized.

Tennessee Alliance for Legal Services
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1. Summary of Significant Accounting Policies

Deferred Revenue

Grant funds received in advance are recognized as deferred grant revenue until earned.

Income Tax Status

TALS is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code except on net income derived from unrelated business income.

US GAAP requires TALS's management to evaluate tax positions taken by TALS and recognize a tax liability (or an asset) if TALS has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. TALS's management has analyzed the tax positions taken by TALS and has concluded that as of December 31, 2022 no uncertain positions have been taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. TALS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. TALS adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition approach, TALS has applied Topic 842 to reporting periods beginning on January 1, 2022.

TALS elected the "package of practical expedients" under the transition guidance within Topic 842, in which TALS does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. TALS has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

TALS determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) TALS obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract.

Tennessee Alliance for Legal Services
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1. Summary of Significant Accounting Policies

Leases (New Accounting Standard Adopted in 2022)

TALS made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, TALS made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

TALS has made an accounting policy election to use the risk-free rate as the discount rate if the rate implicit in the lease is not readily determinable. The risk-free rate is the rate of a zero coupon US Treasury instrument for the same period as the time of the lease term.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to TALS's operating leases of approximately \$104,446 at January 1, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Contribution of Cash and Other Financial Assets

All contributions of cash and other financial assets are available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions restricted for specific purposes are reflected as unrestricted contributions if the restriction is fulfilled in the same fiscal year as it is received.

Grant Revenue

Grant revenues are recognized when qualified reimbursable expenses are incurred or when services are performed. Grant receivables represent amounts due from grants, which have been earned but not received. All grant receivables are reported at estimated collectible amounts.

Conference Revenue

Conference revenue consists primarily of registration fees and sponsorships. Conference revenues are recognized when the conference occurs or when the revenue is received, whichever is later.

Tennessee Alliance for Legal Services

Notes to Financial Statements

For the Year Ended December 31, 2022

Note 1. **Summary of Significant Accounting Policies**

Contribution of Nonfinancial Assets

The value of donated goods and services meeting the criteria for recognition are recorded as contributions of nonfinancial assets, with the corresponding expenses recorded, when the fair values of the goods and services are available. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated consisted primarily of salaries and wages expense which was allocated based on time and effort.

New Accounting Pronouncements

In September 2020, FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item separate from contributions of cash or other financial assets. It also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. Adoption of this ASU had no impact on net assets.

Note 2. **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, comprise the following:

Financial assets	
Cash and cash equivalents	\$ 402,853
Investments	93,120
Accounts receivable	1,203
Grants and contracts receivable	<u>49,456</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 546,632

TALS regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, TALS considers all expenditures related to its ongoing activities of delivering civil legal help to vulnerable Tennesseans as well as the conduct of services undertaken to support those activities to be general expenditures.

Tennessee Alliance for Legal Services

Notes to Financial Statements For the Year Ended December 31, 2022

Note 3. Investments and Fair Value Measurements

Investments are stated at fair value determined based on active markets (Level 1), and consist of the following:

Mutual funds	\$	93,120
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Investment loss, net consists of the following:

Interest and dividends	\$	4,909
Unrealized loss on investments, net		<u>(20,911)</u>
	\$	(16,002)

Note 4. Concentrations

Substantially all of TALS's receivables are from state of Tennessee contracts and grants. Approximately 79% of support and revenues were derived from these contracts and grants during the year.

At times, TALS may maintain cash balances in banks in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000. TALS has not experienced any losses in such accounts and management believes TALS is not exposed to any significant credit risk related to cash.

Note 5. Leases

Lessee

TALS entered into an agreement to extend their operating lease in 2018. The lease continues through July 31, 2023 and does not contain any material restrictive covenants or residual value guarantees. Lease payments are subject to scheduled increases. Operating lease cost and sublease income are recognized on a straight-lined basis over the lease term. Total operating lease cost was \$75,845, and total income recognized under the operating sublease was \$31,239.

Supplemental statement of financial position information related to operating leases is as follows:

Operating lease right of use assets	\$	38,594
Operating lease liabilities, current portion	\$	(38,793)

The remaining lease term is 7 months. The discount rate is 0.59%.

Future undiscounted cash flows and a reconciliation to lease liabilities recognized on the statement of financial position are as follows:

Year ending December 31,	Operating Leases
2023	\$ 38,850
Less imputed interest	<u>(57)</u>
Total present value of lease liabilities	\$ 38,793

Tennessee Alliance for Legal Services
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 5. Leases

Lessor

TALS leases 33% of its rented office space to a tenant under an operating lease through July 31, 2023. Minimum future rentals required under the operating lease agreements in effect at year end as follows:

Year ending December 31,	
2023	\$ 12,821

Total rent income, included in interest and other income on the statement of activities, was \$52,270 for 2022.

During 2023, the operating lease and sublease agreement were extended and will be remeasured as of the modification date.

Note 6. Employee Benefit Plan

The employees of TALS are covered under a simplified employee pension (SEP) plan. Contributions are made by TALS to the SEP plan on behalf of all employees, as determined by the Board of Directors based on each employee's total compensation. Retirement expense for the year ended was \$12,929.

Note 7. Contributions of Nonfinancial Assets

Officers, members of the Board of Directors, and other members of TALS have assisted TALS in the accomplishment of its goals and objectives by the donation of their time and services. These services include providing legal advice and assistance for the vulnerable populations of Tennessee. Donated services recognized in 2022 totaled \$34,828.

Note 8. Related Parties

Due to the nature of TALS, the Board includes representatives from various entities which are integral to the services TALS provides. Several directors are employed by or have relationships with entities who are sub-contractors engaged to carry out the services provided by TALS.

Note 9. Subsequent Events

Management has evaluated subsequent events through October 26, 2023, the date on which the financial statements were available for issuance.