

**Financial Statements and  
Independent Auditors' Reports**



**December 31, 2010**

# **TENNESSEE ALLIANCE FOR LEGAL SERVICES**

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

**December 31, 2010**

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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, 2010, 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, 2010, 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 the two periods ending December 31, 2010 and liabilities exceeding assets at December 31, 2010 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 November 30, 2011 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.

November 30, 2011

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

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Financial Position

December 31, 2010

### Assets

Cash	\$ 18,762
Accounts receivable	9,674
Grants and contracts receivable	130,554
Prepaid expenses	1,222
Office furniture and equipment, net of accumulated depreciation of \$52,614	40,662
Other assets	<u>3,700</u>
Total assets	<u>\$ 204,574</u>

### Liabilities and Deficit

Accounts payable	\$ 12,427
Grants payable	179,229
Accrued expenses	31,447
Other liabilities	<u>1,480</u>
Total liabilities	<u>224,583</u>
Deficit	<u>(20,009)</u>
Total liabilities and deficit	<u>\$ 204,574</u>

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Activities

For the Year Ended December 31, 2010

### Support and Revenue:

#### Support:

Grants and contract income - State of Tennessee	\$ 693,290
AOC - Blue Ribbon grant	15,873
	<u>709,163</u>

#### Revenue:

LSC grants	5,000
Task Force training fees	412
NASW - TN Chapter	18,500
Equal Justice Conference	23,425
Pro Bono Email Project	12,000
Interest income	1,361
Other income	1,972
	<u>62,670</u>

Total support and revenue	<u>771,833</u>
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#### Expenses:

Administrative	92,261
Board	18,582
Marketing	50,741
Task Force	62,121
Websites	54,303
TennHelp	12,392
State contracts	335,383
Blue Ribbon	17,736
Legislative and policy	86,238
Strategic planning	25,940
Disaster Recovery	26,386
Equal Justice Conference	74,311
	<u>856,394</u>

Total expenses	<u>856,394</u>
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Change in net assets	(84,561)
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Net assets, January 1, 2010	<u>64,552</u>
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Deficit, December 31, 2010	<u><u>\$ (20,009)</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, 2010**

	Administrative	Board	Marketing	Task Force	Websites	TennHelp	State Contracts	Blue Ribbon	Legislative and Policy	Strategic Planning	Disaster Recovery	Equal Justice Conference	Total
Salaries and taxes	\$ 52,756	10,622	32,027	33,394	32,176	7,617	23,074	4,026	39,105	8,998	16,523	26,514	286,832
Employee benefits	12,288	1,341	7,777	8,372	9,512	2,159	4,430	836	9,937	2,150	5,288	7,871	71,961
Grant expenses	-	-	-	-	-	-	301,310	-	-	-	-	-	301,310
Professional fees	10,698	527	1,587	5,696	1,917	377	1,145	200	18,105	10,551	817	3,336	54,956
Conference calls	-	1,838	-	557	50	-	-	-	-	-	-	-	2,445
Marketing	-	-	752	-	-	-	-	-	-	-	-	-	752
Equal Justice Conference	-	-	-	-	-	-	-	-	-	-	-	29,551	29,551
CLE ProBono	-	-	-	-	-	-	-	11,691	-	-	-	-	11,691
Task force	-	-	-	4,208	-	-	-	-	-	-	-	-	4,208
Staff travel	2,146	344	708	1,881	444	602	400	116	2,204	224	205	922	10,196
Rent	5,204	914	2,755	3,204	2,767	655	1,987	346	4,694	1,607	1,421	2,446	28,000
Office supplies	793	139	420	488	421	100	302	53	715	245	216	373	4,265
Insurance	702	123	372	433	374	88	268	47	634	217	192	330	3,780
Telephone and internet	1,844	324	976	1,136	981	232	704	123	2,024	569	504	867	10,284
Postage	155	27	82	95	82	19	59	10	140	48	42	73	832
Dues and subscriptions	1,490	262	789	917	792	187	569	99	1,364	460	407	700	8,036
Printing and copying	390	69	206	240	207	49	149	26	352	120	106	183	2,097
Computer and website	724	104	315	366	3,601	75	227	40	536	183	162	279	6,612
Board of Directors	-	1,624	-	-	-	-	-	-	-	-	-	-	1,624
Staff costs	568	-	-	-	-	-	-	-	4,767	-	-	-	5,335
Other	661	-	1,000	-	-	-	56	-	-	-	-	-	1,717
Depreciation	1,842	324	975	1,134	979	232	703	123	1,661	568	503	866	9,910
Total expenses	\$ 92,261	18,582	50,741	62,121	54,303	12,392	335,383	17,736	86,238	25,940	26,386	74,311	856,394

See accompanying notes to financial statements.

# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Statement of Cash Flows

For the Year Ended December 31, 2010

Cash flows from operating activities:	
Change in net assets	\$ (84,561)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	9,910
Increase in accounts receivable	(424)
Decrease in grants receivable	13,376
Decrease in prepaid expenses	557
Decrease in accounts payable	(21,231)
Increase in grants payable	51,051
Increase in accrued expenses	<u>2,729</u>
Net cash used by operating activities	<u>(28,593)</u>
Cash flows from investing activities:	
Purchase of office furniture and equipment	<u>(27,817)</u>
Net cash used by investing activities	<u>(27,817)</u>
Net decrease in cash and cash equivalents	(56,410)
Cash and cash equivalents at beginning of year	<u>75,172</u>
Cash and cash equivalents at end of year	<u>\$ 18,762</u>

See accompanying notes to financial statements.



# TENNESSEE ALLIANCE FOR LEGAL SERVICES

## Notes to Financial Statements

December 31, 2010

(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, 2010

### (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, 2010 the Alliance had no financial or non-financial instruments 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 \$14,558 for the year ended December 31, 2010. 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, 2010

(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 2010 was \$46,579 and sublease rentals were \$18,579.

The Alliance's future minimum lease payments at December 31, 2010 for office space are as follows:

Year ending December 31,	Lease Rentals	Less Sub-lease Rentals	Net Lease Commitments
2011	\$ 47,432	(18,973)	28,459
2012	32,040	(12,816)	19,224
	\$ 79,472	(31,789)	47,683

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 2010.

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

Year ending December 31,	
2011	\$ 3,480
2012	3,480
2013	3,480
2014	3,480
2015	3,190
	\$ 17,110

(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, and this line expires January 25, 2011. At December 31, 2010 there was no outstanding balance.

(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, 2010

(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, 2010. 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 \$38,500 for the calendar year 2010 for services and expenses.

(9) Subsequent Events

Management has evaluated subsequent events through November 30, 2011, 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 two years in the period ended December 31, 2010 and liabilities exceeding assets at December 31, 2010 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.
- Frozen 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.
- For the Equal Justice Conference, the Alliance has solicited donations and discounts from all vendors and will spend very little on refreshments, giveaways, etc.
- Reduced the hours of the Contracts and Services Coordinator to 25 hours per week.
- The Board has approved changes in the Alliance's benefits policy to reduce agency out-of-pocket costs effective January 1, 2012.
- Actively seeking additional funding for projects and been approved for \$23,000.
- Funding has been approved for the federal grant – TIG 10034 – from the Legal Services Corporation through West Tennessee Legal Services. Though it was delayed for eight months in 2011 the billings have started on the grant. 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.
- Applied for grants of \$26,500 and awaiting approval.

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

## **SUPPLEMENTAL INFORMATION**

**TENNESSEE ALLIANCE FOR LEGAL SERVICES**

**Schedule of State Awards**

**For the Year Ended December 31, 2010**

	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Contract Period</u>	<u>Contract Amount</u>	<u>Contract Funds Receivable December 31, 2009</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2010</u>
State of Tennessee:								
Department of Children's Services -								
DCS Litigation	State	FA00415324-00	07/01/08 - 06/30/13	\$ <u>750,000</u>	\$ 77,704	135,350	93,434	35,788
Department of Human Services -								
DHS Social Security Project	State	-	07/01/07 - 06/30/10	\$ <u>1,760,000</u>	48,048	189,415	236,133	94,766
Administrative Office of the Courts -								
Civil Legal Representation of								
Indigents Funds	State	-	07/01/09 - 06/30/10	\$ <u>-</u>	-	363,722	363,722	-
Blue Ribbon Grant	State	-	12/13/07 - 12/12/10	\$ <u>89,633</u>	18,178	34,051	15,873	-
					\$ <u>143,930</u>	<u>722,538</u>	<u>709,162</u>	<u>130,554</u>

**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, 2010, and have issued our report thereon dated November 30, 2011. 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 the two periods ending December 31, 2010 and liabilities exceeding assets at December 31, 2010 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 certain matters that we reported to management of the Alliance in a separate letter dated November 30, 2011.

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.

November 30, 2011

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