

**Financial Statements and
Reports of Independent Auditors**



December 31, 2012

TENNESSEE ALLIANCE FOR LEGAL SERVICES

**Financial Statements and
Reports of Independent Auditors**

December 31, 2012

Table of Contents

	<u>Page Number</u>
Report of Independent Auditors	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplemental Information:	11
Schedule of Expenditures of Governmental Awards	12
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 <i>Government Auditing Standards</i>	13

RAYBURN, BATES & FITZGERALD, P.C.

————— *CERTIFIED PUBLIC ACCOUNTANTS* —————
SUITE 300
5200 MARYLAND WAY
BRENTWOOD, TENNESSEE 37027
www.rbfcpa.com

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, 2012, 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.

Auditor's 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 Tennessee Alliance for Legal Services as of December 31, 2012, 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 governmental 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 June 4, 2013, on our consideration of the Tennessee Alliance for Legal Services' 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 Tennessee Alliance for Legal Services' internal control over financial reporting and compliance.

June 4, 2013

Rayburn, Bates & Fitzgerald, P.C.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Financial Position

December 31, 2012

Assets

Cash	\$	58,251
Accounts receivable		7,412
Grants and contracts receivable		45,210
Prepaid expenses		5,402
Office furniture and equipment, net of accumulated depreciation of \$81,124		10,405
Other assets		<u>3,700</u>
Total assets	\$	<u><u>130,380</u></u>

Liabilities and Deficit

Liabilities:		
Accounts payable	\$	770
Legal assistance payable		54,237
Accrued expenses		21,923
Deferred revenue		25,000
Other liabilities		1,480
Line of credit (note 5)		<u>30,000</u>
Total liabilities		133,410
Deficit (unrestricted)		<u>(3,030)</u>
Total liabilities and deficit	\$	<u><u>130,380</u></u>

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Activities

For the Year Ended December 31, 2012

Support and Revenue:

Support -

Grants and contract income - State of Tennessee	\$ <u>542,589</u>
---	-------------------

Revenue:

Task Force training fees	840
NASW - Tennessee Chapter	18,500
Equal Justice Conference	34,652
Legal aid - library projects	10,553
Online Tennessee Justice	7,500
Interest income	128
Disaster legal services	1,716
Other income	7,419
	<u>81,308</u>

Total support and revenue	<u>623,897</u>
---------------------------	----------------

Expenses:

Administrative	68,882
Board	18,762
Marketing	24,210
Task Force	50,649
Websites	31,436
TennHelp	3,508
State contracts	177,242
Library projects	34,485
Legislative and policy	80,840
Strategic planning	13,335
Equal Justice Conference	49,720
	<u>553,069</u>

Total expenses	<u>553,069</u>
----------------	----------------

Change in net assets - unrestricted	70,828
-------------------------------------	--------

Deficit, January 1, 2012	<u>(73,858)</u>
--------------------------	-----------------

Deficit, December 31, 2012	<u><u>\$ (3,030)</u></u>
----------------------------	--------------------------

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Functional Expenses

For the Year Ended December 31, 2012

	Administrative	Board	Marketing	Task Force	Websites	TennHelp	State Contracts	Library Projects	Legislative and Policy	Strategic Planning	Equal Justice Conference	Total
Salaries and taxes	\$ 37,103	11,327	14,553	26,842	15,636	2,323	16,627	23,178	37,265	720	17,886	203,460
Employee benefits	4,819	1,364	1,569	5,452	1,989	223	2,368	3,344	7,406	29	2,788	31,351
Legal assistance	-	-	-	-	-	-	152,525	-	-	-	-	152,525
Professional fees	9,932	705	904	5,516	971	144	1,034	1,440	17,695	9,649	3,227	51,217
Conference calls	457	118	151	320	162	24	173	241	551	108	206	2,511
Marketing	-	-	2,518	-	-	-	-	-	681	-	-	3,199
Equal Justice Conference	-	-	-	-	114	-	-	-	-	-	20,025	20,139
Task force	-	-	-	2,564	-	-	-	-	-	-	-	2,564
Staff travel	907	802	424	-	232	-	5	-	350	-	204	2,924
Rent	5,158	1,331	1,706	3,617	1,834	273	1,953	2,719	6,221	1,224	2,327	28,363
Office supplies	369	95	122	259	131	19	140	195	445	88	166	2,029
Insurance	899	232	297	630	320	48	340	474	1,084	214	406	4,944
Telephone and internet	1,087	280	360	1,861	387	57	412	573	1,807	258	491	7,573
Postage	84	23	29	62	31	5	33	47	106	21	49	490
Dues and subscriptions	1,018	75	95	202	103	15	109	152	1,190	68	130	3,157
Printing and copying	847	218	280	594	301	45	320	446	1,204	201	381	4,837
Computer and website	414	72	92	195	8,193	179	105	146	335	66	125	9,922
Board of Directors	-	1,371	-	-	-	-	-	-	-	-	-	1,371
Staff costs	720	-	-	500	-	-	-	-	1,000	-	-	2,220
Interest expense	1,754	-	-	-	-	-	-	-	-	-	-	1,754
Bank fees	371	-	-	-	-	-	-	-	-	-	-	371
Miscellaneous	42	-	150	-	-	-	-	-	-	-	-	192
Depreciation	2,901	749	960	2,035	1,032	153	1,098	1,530	3,500	689	1,309	15,956
Total expenses	\$ 68,882	18,762	24,210	50,649	31,436	3,508	177,242	34,485	80,840	13,335	49,720	553,069

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Cash Flows

For the Year Ended December 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ 70,828
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	15,956
Increase in accounts receivable	(2,098)
Decrease in grants receivable	115,682
Decrease in prepaid expenses	1,481
Decrease in accounts payable	(33,252)
Decrease in legal assistance payable	(140,909)
Decrease in accrued expenses	(1,765)
Increase in deferred revenue	25,000
	<hr/>
Net cash provided by operating activities	50,923
Cash and cash equivalents at beginning of year	<hr/> 7,328
Cash and cash equivalents at end of year	\$ <hr/> <hr/> 58,251

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements

December 31, 2012

(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.

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, 2012

(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, 2012 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 \$6,083 for the year ended December 31, 2012. 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, 2012

(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 2012 was \$47,838 and sublease rentals were \$19,475.

The Alliance's future minimum lease payments at December 31, 2012 for office space are as follows:

Year ending December 31,	Lease Rentals	Less Sub-lease Rentals	Net Lease Commitments
2013	\$ 46,080	(15,206)	30,874
2014	46,080	(15,206)	30,874
2015	<u>26,880</u>	<u>(8,870)</u>	<u>18,010</u>
	<u>\$ 119,040</u>	<u>(39,282)</u>	<u>79,758</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 \$4,018 in 2012.

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

Year ending December 31,	
2013	\$ 3,480
2014	3,480
2015	<u>3,190</u>
	<u>\$ 10,150</u>

(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 February 28, 2014. At December 31, 2012, 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, 2012

(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 84% of support and revenues was derived from these three agencies during the year ended December 31, 2012. 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 2012 for services and expenses.

(9) Subsequent Events

Management has evaluated subsequent events through June 4, 2013, 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, 2012

<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, 2011</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2012</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>	\$ 45,923	83,255	60,216	22,884
Department of Human Services - DHS Social Security Project	N/A	GR 0821693	07/01/07- 06/30/12	\$ <u>1,880,000</u> (1)	114,969	137,997	23,028	-
Department of Human Services - DHS Social Security Project	N/A	GR 1338126	07/01/12- 06/30/13	\$ <u>100,000</u> (2)	-	63,495	85,821	22,326
Administrative Office of the Courts - Civil Legal Representation of Indigents Funds	N/A	-	07/01/11 - 06/30/13	\$ <u>-</u>	-	373,524	373,524	-
					\$ <u>160,892</u>	<u>658,271</u>	<u>542,589</u>	<u>45,210</u>

(1) - 100% of funding was a pass-thru of Federal funds.

(2) - 33.3% of funding is a pass-thru of Federal funds.

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, 2012. 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 —
SUITE 300
5200 MARYLAND WAY
BRENTWOOD, TENNESSEE 37027
www.rbcpa.com

**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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, 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 June 4, 2013.

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 June 4, 2013.

June 4, 2013

Angela, Bates & Fitzgerald, P.C.