

TENNESSEE ALLIANCE FOR LEGAL SERVICES

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

As of and for Year Ended December 31, 2018

And Report of Independent Auditor

TENNESSEE ALLIANCE FOR LEGAL SERVICES
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Report of Independent Auditor

Board of Directors
Tennessee Alliance for Legal Services
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee Alliance for Legal Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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 Tennessee Alliance for Legal Services as of December 31, 2018, 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.

Changes in Financial Statement Presentation

As discussed in Note 1, Tennessee Alliance for Legal Services adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matters - Other Information

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 and state financial assistance 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 22, 2019, on our consideration of 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 Tennessee Alliance for Legal Services’ internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cheryl Bekant LLP".

Nashville, Tennessee
May 22, 2019

TENNESSEE ALLIANCE FOR LEGAL SERVICES
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

ASSETS

Current Assets:

Cash and cash equivalents	\$ 624,497
Investments	69,336
Accounts receivable	4,305
Grants and contracts receivable	197,872
Prepaid expenses	<u>9,190</u>
Total Current Assets	905,200

Office furniture and equipment,
net of accumulated depreciation of \$100,290

1,157

Other assets

3,700

Total Assets

\$ 910,057

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses	\$ 9,739
Grants payable	404,278
Deferred revenue	<u>122,996</u>
Total Current Liabilities	537,013

Net Assets:

Without donor restrictions	<u>373,044</u>
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Total Liabilities and Net Assets

\$ 910,057

TENNESSEE ALLIANCE FOR LEGAL SERVICES
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Support and Revenue:

Government grants and contract income	\$ 1,655,145
1-844-Help4TN grants	79,531
Equal Justice Conference	57,010
HELP4TN.org grants	17,000
Other income (including \$8,962 in-kind)	14,508
TN Free Legal Answers	3,000
Interest income	352
Investment loss, net	<u>(4,706)</u>
Total Support and Revenue	<u>1,821,840</u>

Expenses:

Program services	1,643,302
Administrative	96,599
Fundraising	21,751
Outreach	<u>40,888</u>
Total Expenses	<u>1,802,540</u>

Increase in net assets without donor restrictions	19,300
Net assets, beginning of year	<u>353,744</u>
Net assets, end of year	<u><u>\$ 373,044</u></u>

TENNESSEE ALLIANCE FOR LEGAL SERVICES **STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Program Services										Support Services				Total Expenses
	Task Force	State Contracts	HELP-4TN.org	Legislative and Policy	TN Free Legal Answers	1-844-Help4TN	Equal Justice Conference	Law Search Pro	General Programs	Total	Administrative	Financial Development	Outreach	Total	
Legal assistance	\$ -	\$ 1,080,804	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,080,804	\$ -	\$ -	\$ -	\$ -	\$ 1,080,804
Salaries and taxes	4,626	12,317	65,450	2,805	4,887	154,388	27,897	701	-	273,071	49,920	15,524	27,106	92,550	365,621
Professional fees															
(including \$8,962 in-kind)	143	369	2,095	36,684	408	59,114	3,165	22	289	102,289	2,079	513	905	3,497	105,786
Employee benefits	496	940	7,950	583	304	23,258	4,282	99	-	37,912	19,369	2,956	5,041	27,366	65,278
EJU Conference Expense	-	-	-	-	-	-	45,263	-	-	45,263	-	-	-	-	45,263
Rent	438	1,132	6,437	307	444	13,370	2,746	67	160	25,101	6,390	1,577	2,782	10,749	35,850
Telephone and internet	208	149	1,646	40	58	26,924	361	296	21	29,703	841	207	366	1,414	31,117
Staff travel	10	728	2,044	-	73	183	4,070	-	33	7,141	6,351	18	2,474	8,843	15,984
Information Technology	159	412	2,326	112	162	6,284	999	24	1,244	11,722	2,358	573	1,012	3,943	15,665
Staff costs	-	-	1,975	190	-	993	-	-	1,875	5,033	5,600	-	462	6,062	11,095
Miscellaneous	-	-	712	300	8,250	-	-	-	-	9,262	376	-	-	376	9,638
Elder Trust Boot Camp	-	-	-	-	-	4,236	-	-	-	4,236	-	-	-	-	4,236
Insurance	47	122	691	33	48	1,438	295	7	17	2,698	687	169	299	1,155	3,853
Office supplies	22	55	701	15	22	1,296	135	3	8	2,257	319	78	136	533	2,790
Outreach	-	-	566	-	-	644	-	-	432	1,642	859	-	16	875	2,517
Dues and subscriptions	15	39	221	761	15	376	94	2	6	1,529	220	54	96	370	1,899
CLE filing expense	78	-	-	-	-	7	1,286	-	-	1,371	-	-	-	-	1,371
Depreciation	13	35	199	9	14	338	85	2	5	700	198	49	86	333	1,033
Printing and Reproduction	9	21	121	6	8	334	51	1	3	554	215	30	101	346	900
Bank fees	10	-	-	-	-	264	219	6	-	499	21	-	-	21	520
Board of directors meeting costs	-	-	-	-	-	-	-	-	-	-	503	-	-	503	503
Task force	398	-	-	-	-	-	-	-	-	398	-	-	-	-	398
Other Events	-	-	-	-	-	-	-	-	-	-	247	-	-	247	247
Postage	-	2	13	1	1	64	29	7	-	117	46	3	6	55	172
	<u>\$ 6,672</u>	<u>\$ 1,097,125</u>	<u>\$ 93,147</u>	<u>\$ 41,846</u>	<u>\$ 14,694</u>	<u>\$ 293,511</u>	<u>\$ 90,977</u>	<u>\$ 1,237</u>	<u>\$ 4,093</u>	<u>\$ 1,643,302</u>	<u>\$ 96,599</u>	<u>\$ 21,751</u>	<u>\$ 40,888</u>	<u>\$ 159,238</u>	<u>\$ 1,802,540</u>

The accompanying notes to the financial statements are an integral part of this statement.

TENNESSEE ALLIANCE FOR LEGAL SERVICES **STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities:

Change in net assets	\$ 19,300
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,033
Realized and unrealized loss on securities, net	5,755
Changes in operating assets and liabilities:	
Accounts receivable	10,531
Grants and contracts receivable	(167,444)
Prepaid expenses	(1,014)
Accounts payable and accrued expenses	(31,008)
Grants payable	368,095
Deferred revenue	114,888
Net cash provided by operating activities	<u>320,136</u>

Cash flows from investing activities:

Purchase of investments	<u>(1,049)</u>
Net cash used in investing activities	<u>(1,049)</u>

Net increase in cash and cash equivalents	319,087
Cash and cash equivalents, beginning of year	<u>305,410</u>
Cash and cash equivalents, end of year	<u><u>\$ 624,497</u></u>

TENNESSEE ALLIANCE FOR LEGAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Note 1—Nature of operations and summary of significant accounting policies

Nature of Operations – Tennessee Alliance for Legal Services (the “Alliance”) 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.

Financial Statement Presentation – 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 (“GAAP”). Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Alliance 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 the Alliance. These net assets may be used at the discretion of the Alliance’s management and 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 the Alliance or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Alliance had no net assets with donor restrictions at December 31, 2018.

Cash Equivalents – The Alliance considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments – Investments are stated at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses are reflected in the statement of activities.

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 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Alliance has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

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 methodologies used for assets measured at fair value on a recurring basis:

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

No changes in the valuation methodologies were made during 2018.

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 the Alliance'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 – Accounts and grants 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 December 31, 2018.

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 3 to 5 years. Expenditures for repairs and maintenance are charged to expense as incurred. Major purchases and betterments are capitalized.

Income Tax Status – The Alliance is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and the Alliance is classified as an organization that is not a private foundation as defined in Section 509(a) of the IRC. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Alliance follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Alliance has not recognized any tax related interest and penalties in the accompanying financial statements.

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 net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Note 1—Nature of operations and summary of significant accounting policies (continued)

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.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principle – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented.

Accounting Policies for Future Pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Alliance for the year ending December 31, 2019. The Alliance is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending December 31, 2020. The Alliance is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard will be effective for the fiscal year ending December 31, 2019. The Alliance is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events – The Alliance evaluated subsequent events through May 22, 2019, when these financial statements were available to be issued.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Note 2—Employee benefit plans

The employees of the Alliance are covered under a simplified employee pension (“SEP”) plan. Contributions are made by the Alliance 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 December 31, 2018 was \$9,738.

Note 3—Investments

Investments are stated at fair value determined based on active markets (Level 1), and consist of the following at December 31, 2018:

Mutual funds - moderate allocation	<u>\$ 69,336</u>
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Investment loss, net, consists of the following for the year ended December 31, 2018:

Interest and dividends	\$ 1,049
Realized and unrealized loss on investments, net	<u>(5,755)</u>
	<u>\$ (4,706)</u>

Note 4—Concentrations

Substantially all of the Alliance’s receivables are from State of Tennessee contracts and grants. Approximately 90% of support and revenues were derived from these contracts and grants during the year ended December 31, 2018.

Note 5—Operating lease commitments

The Alliance entered into a lease agreement for its office space on July 17, 2007. The lease agreement has been amended to extend the term of the lease through July 31, 2023. The Alliance subleases a portion of its office space to their independent contractors and the National Association of Social Workers. Rent expense and related sublease rent income totaled \$62,132 and \$26,282, respectively, for the year ended December 31, 2018.

The Alliance entered into an operating agreement for a copy machine. The operating agreement was amended on October 7, 2015. The terms of the amendment of the lease was for \$109 per month for 48 months. A second amendment was entered into on November 17, 2018. The terms of the amendment of the lease was for \$147 per month for 48 months. Total payments for office equipment were \$1,643 for the year ended December 31, 2018.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

Note 5—Operating lease commitments (continued)

The Alliance's future minimum lease payments at December 31, 2018 are as follows:

Years Ending December 31,

2019	\$	65,049
2020		65,974
2021		66,899
2022		67,677
2023		38,850
Thereafter		-
	\$	<u>304,449</u>

Note 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 the criteria for recognition of such volunteer effort have not been satisfied.

Note 7 – Liquidity and availability

The Alliance 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, the Alliance 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. 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 at December 31:

Financial assets at year-end:

Cash and cash equivalents	\$	624,497
Investments		69,336

Financial assets available to meet general expenditures within one year:

\$	<u>693,833</u>
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SUPPLEMENTAL INFORMATION

TENNESSEE ALLIANCE FOR LEGAL SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2018

Grant Description	CFDA Number	Contract Number	Expenditures	Passed through to Subrecipients
Federal Awards:				
<u>U.S. Department of Human Services</u>				
<i>Passed through State of Tennessee, Department of Human Services</i>				
Assistance to Disabled Families First Participants	93.558	GR 13-38126	\$ 40,103	\$ 36,093
Qualifying for Supplemental Security Income	93.558	51661	36,145	30,041
Pilot Project			76,248	66,134
Total Department of Human Services				
<i>Passed through State of Tennessee, Commission on Aging and Disability</i>				
Senior Line	93.048	53834	37,146	-
Total Commission on Aging and Disability			37,146	-
Total Federal Awards			113,394	66,134
State Financial Assistance:				
<i>State of Tennessee, Department of Human Services</i>				
Assistance to Disabled Families First Participants	n/a	GR 13-38126	81,421	73,279
Qualifying for Supplemental Security Income	n/a	51661	73,385	60,991
Pilot Project			154,806	134,270
Total State of Tennessee Department of Human Services				
<i>State of Tennessee, Commission on Aging and Disability</i>				
Senior Trust/Elder Trust	n/a	STTRUST-TALS	982,697	880,400
Total State of Tennessee Commission on Aging and Disability			982,697	880,400
<i>Administrative Office of the Courts</i>				
Civil Legal Representation of Indigents Funds	n/a	n/a	358,538	-
Helpline	n/a	n/a	44,425	-
Access to Justice Court Kiosk Pilot Project	n/a	n/a	1,285	-
Total State of Tennessee Administrative Office of the Courts			404,248	-
Total State Financial Assistance			1,541,751	1,014,670
Total Federal Awards and State Financial Assistance			\$ 1,655,145	\$ 1,080,804

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") summarizes the expenditures of Tennessee Alliance for Legal Services under programs of the federal and state governments for the year ended December 31, 2018. The schedule is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the State of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Government Units and Other Organizations.

Note 2 - Summary of significant accounting policies

Tennessee Alliance for Legal Services expended indirect costs using a multiple allocation base method and did not elect to use the 10% de minimus cost rate allowed under the Uniform Guidance.

**Report of Independent Auditor 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***

Board of Directors
Tennessee Alliance for Legal Services
Nashville, Tennessee

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 Tennessee Alliance for Legal Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tennessee Alliance for Legal Services' 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 Tennessee Alliance for Legal Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Tennessee Alliance for Legal Services' 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 Tennessee Alliance for Legal Services' 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 Tennessee Alliance for Legal Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tennessee Alliance for Legal Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheng Beikant LLP

Nashville, Tennessee
May 22, 2019