TENNESSEE ALLIANCE FOR LEGAL SERVICES

FINANCIAL STATEMENTS

As of and for Year Ended December 31, 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TENNESSEE ALLIANCE FOR LEGAL SERVICES

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Cherry Bekaert LLP
CPAs & Advisors

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 (the "Alliance") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 Alliance as of December 31, 2017, 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 - 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 June 8, 2018, on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Nashville, Tennessee
June 8, 2018

TENNESSEE ALLIANCE FOR LEGAL SERVICES

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

ASSETS		
Current Assets:		
Cash and cash equivalents	$	305,410
Investments		74,042
Accounts receivable		14,836
Grants and contracts receivable		30,428
Prepaid expenses		8,176
Total Current Assets		432,892
Office furniture and equipment, net of accumulated depreciation of $99,257		2,190
Other assets		3,700
Total Assets	$	438,782
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	11,968
Legal assistance payable		36,183
Accrued expenses		27,299
Deferred revenue		8,108
Other liabilities		1,480
Total Liabilities		85,038
Net Assets:		
Unrestricted		353,744
Total Liabilities and Net Assets	$	438,782

TENNESSEE ALLIANCE FOR LEGAL SERVICES

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

Support and Revenue:		
Grants and contract income	$	644,147
1-844-Help4TN		69,425
Equal Justice Conference		56,745
HELP4TN.org		17,000
Other income (including $4,500 in-kind)		8,440
TN Free Legal Answers		3,000
Task Force training fees		1,040
Interest income		149
Investment gain, net		9,731
Total Support and Revenue		809,677
Expenses:		
Program services		609,082
Administrative		63,331
Fundraising		4,466
Outreach		64,831
Total Expenses		741,710
Change in unrestricted net assets		67,967
Net assets, beginning of year		285,777
Net assets, end of year	$	353,744

TENNESSEE ALLIANCE FOR LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services									Support Services				
	Task Force	State Contracts	HELP-4TN.org	Legislative and Policy	TN Free Legal Answers	1-844-Help4TN	Equal Justice Conference	Law Search Pro	Total	Administrative	Fund-raising	Outreach	Total	Total Expenses
Salaries and taxes	$ 5,955	$ 18,461	$ 50,680	$ 4,445	$ 22,737	$ 93,701	$ 31,545	$ 1,559	$ 229,083	$ 43,969	$ 2,433	$ 37,786	$ 84,188	$ 313,271
Legal assistance	-	118,330	-	-	-	-	-	-	118,330	-	-	-	-	118,330
Professional fees (including $4,500 in-kind)	7,994	826	2,266	86,670	1,016	4,196	3,028	69	106,065	3,517	1,043	4,202	8,762	114,827
Employee benefits	1,010	2,664	9,984	1,296	4,014	13,888	5,713	286	38,855	5,035	474	7,526	13,035	51,890
Equal Justice Conference expenses	-	-	-	-	-	-	41,467	-	41,467	-	-	-	-	41,467
Rent	1,078	1,434	3,935	7,241	1,763	7,282	2,577	121	25,431	3,545	263	3,119	6,927	32,358
Computer and website	535	395	14,817	1,082	486	2,339	711	279	20,644	87	73	2,048	2,208	22,852
Staff travel	13	1,881	2,276	606	70	10	19	-	4,875	638	-	6,154	6,792	11,667
Telephone and internet	241	577	550	1,012	246	3,215	360	17	6,218	766	37	436	1,239	7,457
Staff costs	151	446	972	1,207	247	1,022	398	17	4,460	644	37	1,598	2,279	6,739
Insurance	140	186	510	939	229	944	334	16	3,298	460	34	404	898	4,196
Depreciation	111	148	405	745	182	750	265	12	2,618	365	27	321	713	3,331
Board of directors meeting costs	-	-	-	-	-	-	-	-	-	3,225	-	-	3,225	3,225
Outreach	-	-	755	-	-	744	-	-	1,499	25	20	870	915	2,414
Office supplies	56	74	204	375	91	377	133	6	1,316	183	14	161	358	1,674
CLE filing expense	1,530	-	-	-	-	19	19	-	1,568	-	-	-	-	1,568
Conference calls	46	61	167	307	75	309	109	5	1,079	150	11	132	293	1,372
Dues and subscriptions	-	-	-	967	-	-	-	-	967	264	-	-	264	1,231
Task force	1,037	-	-	-	-	-	-	-	1,037	-	-	-	-	1,037
Postage	-	-	14	25	-	-	192	-	231	152	-	74	226	457
Bank fees	1	-	-	-	-	32	-	8	41	298	-	-	298	339
Miscellaneous	-	-	-	-	-	-	-	-	-	8	-	-	8	8
	$ 19,898	$ 145,483	$ 87,535	$ 106,917	$ 31,156	$ 128,828	$ 86,870	$ 2,395	$ 609,082	$ 63,331	$ 4,466	$ 64,831	$ 132,628	$ 741,710

TENNESSEE ALLIANCE FOR LEGAL SERVICES

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities:		
Change in net assets	$	67,967
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		3,331
Realized and unrealized gain on securities, net		(2,277)
Changes in operating assets and liabilities:		
Accounts receivable		(8,911)
Grants and contracts receivable		43,872
Prepaid expenses		(1,573)
Accounts payable		5,049
Legal assistance payable		(30,537)
Accrued expenses		2,068
Deferred revenue		1,275
Net cash provided by operating activities		80,264
Cash flows from investing activities:		
Purchase of investments		(7,455)
Purchase of office furniture and equipment		(1,302)
Net cash used in investing activities		(8,757)
Net increase in cash and cash equivalents		71,507
Cash and cash equivalents, beginning of year		233,903
Cash and cash equivalents, end of year	$	305,410

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

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:

> *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations.
>
> *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Alliance and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Alliance had no temporarily restricted net assets at December 31, 2017.
>
> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Alliance. Generally, the donors of these assets permit the Alliance to use all or part of the income on related investments for general or specific purposes. The Alliance had no permanently restricted net assets at December 31, 2017.

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.

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 2017.

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, 2017.

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 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.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates by management.

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.

Subsequent Events – The Alliance evaluated subsequent events through June 8, 2018, when these financial statements were available to be issued. The Alliance is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

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, 2017 was $8,479.

Note 3—Investments

Investments are stated at fair value determined based on active markets (Level 1), and consist of the following at December 31, 2017:

Mutual funds - moderate allocation	$	74,042

Investment gain, net, consists of the following for the year ended December 31, 2017:

Interest and dividends	$	7,454
Realized and unrealized gain on investments, net		2,277
	$	9,731

Note 4—Concentrations

Substantially all of the Alliance's receivables are from the State of Tennessee, Department of Human Services and the State of Tennessee, Administrative Office of the Courts. Approximately 77% of support and revenues were derived from these two agencies during the year ended December 31, 2017. These concentrations expose the Alliance to vulnerability and reliance on these agencies.

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 $58,580 and $26,222, respectively, for the year ended December 31, 2017.

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. 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. Total payments for office equipment were $1,308 for the year ended December 31, 2017.

The Alliance's future minimum lease payments at December 31, 2017 are as follows:

Years Ending December 31,		
2018	$	58,810
2019		64,266
2020		64,210
2021		65,135
2022		66,060
Thereafter		38,850
	$	357,331

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.

SUPPLEMENTAL INFORMATION

TENNESSEE ALLIANCE FOR LEGAL SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

DECEMBER 31, 2017

Grant Description	CFDA Number	Contract Number	Expenditures	Expenditures to Subrecipients
Federal Awards:				
U.S. Department of Human Services				
Passed through State of Tennessee, Department of Human Services				
Assistance to Disabled Families First Participants				
Qualifying for Supplemental Security Income	n/a	GR 13-38126	$ 29,171	$ 26,254
Pilot Project	93.558	51661	18,189	12,795
Total Department of Human Services			47,360	39,049
Total Federal Awards			**47,360**	**39,049**
State Financial Assistance:				
State of Tennessee, Department of Human Services				
Assistance to Disabled Families First Participants				
Qualifying for Supplemental Security Income	n/a	GR 13-38126	59,227	53,304
Pilot Project	n/a	51661	36,930	25,977
Total State of Tennessee Department of Human Services			96,157	79,281
State of Tennessee, Commission on Aging and Disability				
Senior Line	n/a	53834	10,574	-
Total State of Tennessee Commission on Aging and Disability			10,574	-
Administrative Office of the Courts				
Civil Legal Representation of Indigents Funds	n/a	n/a	422,755	-
Helpline	n/a	n/a	44,425	-
Total State of Tennessee Administrative Office of the Courts			467,180	-
Total State Financial Assistance			**573,911**	**79,281**
Total Federal Awards and State Financial Assistance			**$ 621,271**	**$ 118,330**

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, 2017. 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.

Cherry Bekaert LLP
CPAs & Advisors

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 (the "Alliance") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 June 8, 2018.

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 Alliance'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 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 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 Alliance'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 Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Nashville, Tennessee
June 8, 2018