

**Financial Statements and
Independent Auditors' Reports**

Tennessee Alliance for Legal Services

December 31, 2008

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Financial Statements and Independent Auditors' Reports

December 31, 2008

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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, 2008, 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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2009 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 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.

June 10, 2009

Rayburn, Bates & Fitzgerald, P.C.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Financial Position

December 31, 2008

Assets

Cash	\$	80,999
Accounts receivable		5,000
Grants receivable		122,057
Prepaid expenses		1,851
Office furniture and equipment, net of accumulated depreciation of \$33,865		33,869
Other assets		<u>3,700</u>
Total assets	\$	<u>247,476</u>

Liabilities and Net Assets

Accounts payable	\$	7,892
Grants payable		128,367
Accrued expenses		25,857
Other liabilities		<u>1,480</u>
Total liabilities		<u>163,596</u>
Net assets – unrestricted		<u>83,880</u>
Total liabilities and net assets	\$	<u>247,476</u>

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Activities

For the Year Ended December 31, 2008

Support and Revenue:

Support:

Grants income - State of Tennessee contracts	\$ 644,342
AOC - Blue Ribbon Grant	66,273
	<u>710,615</u>

Revenue:

LSC grants	7,500
Task Force training fees	5,110
NASW - TN Chapter	20,000
Equal Justice Conference	19,320
Interest income	1,181
Other income	1,748
	<u>54,859</u>

Total support and revenue	<u>765,474</u>
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Expenses:

Administrative	116,973
Board	15,460
Marketing	44,834
Task Force	39,717
Websites	39,586
TennHelp	24,011
State Contracts	263,537
Blue Ribbon	35,433
Legislative and Policy	78,801
Strategic Planning	17,739
Equal Justice Conference	56,275
	<u>732,366</u>

Total expenses	<u>732,366</u>
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Change in net assets	33,108
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Net assets, January 1, 2008	<u>50,772</u>
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Net assets, December 31, 2008	<u><u>\$ 83,880</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, 2008

	Administrative	Board	Marketing	Task Force	Websites	TennHelp	State Contracts	Blue Ribbon	Legislative and Policy	Strategic Planning	Equal Justice Conference	Total
Salaries and taxes	\$ 58,196	7,334	28,195	20,577	23,343	12,962	17,899	12,993	37,669	5,548	18,431	243,147
Employee benefits	12,028	751	6,726	3,181	5,871	2,769	2,119	953	7,169	355	3,028	44,950
Grants expense	-	-	-	-	-	-	238,132	-	-	-	-	238,132
Professional fees	11,547	476	1,947	5,482	1,531	781	1,033	950	18,157	10,047	3,276	55,227
Conference calls	1,286	-	-	1,270	112	-	-	-	-	-	-	2,668
Marketing	-	-	830	-	-	-	-	-	-	-	-	830
TennHelp	-	-	-	-	-	4,257	-	-	-	-	-	4,257
Equal Justice Conference	-	-	-	-	-	-	-	-	-	-	24,869	24,869
CLE ProBono	1,666	-	-	-	-	-	-	16,511	787	-	-	18,964
Task Force	-	-	-	2,045	-	-	-	-	-	-	-	2,045
Staff travel	1,378	107	285	580	157	92	187	193	1,904	86	1,223	6,192
Rent	6,105	755	3,089	2,590	2,429	1,240	1,639	1,508	4,374	670	2,143	26,542
Office supplies	893	110	452	379	355	181	240	221	640	98	313	3,882
Insurance	907	112	459	385	361	184	245	224	650	99	319	3,945
Telephone and internet	2,219	275	1,123	942	883	451	596	548	1,590	244	779	9,650
Postage	298	37	151	126	118	60	80	73	213	33	105	1,294
Dues and subscriptions	1,015	88	362	303	284	145	192	177	862	78	251	3,757
Printing and copying	743	92	376	315	296	151	199	184	532	82	261	3,231
Computer and website	1,536	282	153	967	3,307	463	612	563	634	250	801	9,568
Board of Directors	-	2,693	-	-	-	-	-	-	-	-	-	2,693
Strategic planning	-	2,181	-	-	-	-	-	-	-	-	-	2,181
Staff costs	1,315	167	686	575	539	275	364	335	3,620	149	476	8,501
Other	878	-	-	-	-	-	-	-	-	-	-	878
Depreciation	14,467	-	-	-	-	-	-	-	-	-	-	14,467
Loss on disposals	496	-	-	-	-	-	-	-	-	-	-	496
Total expenses	\$ 116,973	15,460	44,834	39,717	39,586	24,011	263,537	35,433	78,801	17,739	56,275	732,366

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Statement of Cash Flows

For the Year Ended December 31, 2008

Cash flows from operating activities:	
Change in net assets	\$ 33,108
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,467
Loss on disposals	496
Increase in grants receivable	(65,318)
Increase in prepaid expenses	(601)
Decrease in accounts payable	(7,874)
Increase in grants payable	47,806
Increase in accrued expenses	<u>2,715</u>
Net cash provided by operating activities	<u>24,799</u>
Cash flows from investing activities:	
Purchase of office furniture and equipment	<u>(38,715)</u>
Net cash used by investing activities	<u>(38,715)</u>
Net decrease in cash and cash equivalents	(13,916)
Cash and cash equivalents at beginning of year	<u>94,915</u>
Cash and cash equivalents at end of year	<u><u>\$ 80,999</u></u>

See accompanying notes to financial statements.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements

December 31, 2008

(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.

Grants 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, 2008

(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 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 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 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 instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2008 the Alliance had no financial instruments recorded at fair value.

(3) Employee Benefit Plan

The employees of the Alliance are covered under a simplified employee pension (SEP) plan with Mutual America. Payments are made by the Alliance on behalf of all employees based upon their compensation. The contributions were \$11,391 for the year ended December 31, 2008.

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Notes to Financial Statements, (Continued)

December 31, 2008

(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 2008 was \$44,400 and sublease rentals for were \$17,858.

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

<u>Year ending</u> <u>December 31,</u>	<u>Lease</u> <u>Rentals</u>	Less <u>Sub-lease</u> <u>Rentals</u>	<u>Net Lease</u> <u>Commitments</u>
2009	\$ 45,590	(18,236)	27,354
2010	46,502	(18,601)	27,901
2011	47,432	(18,973)	28,459
2012	<u>32,040</u>	<u>(12,816)</u>	<u>19,224</u>
	<u>\$ 171,564</u>	<u>(68,626)</u>	<u>102,938</u>

The Alliance entered into an operating agreement on November 9, 2006 for a copy machine. The term of the lease was for 51 months. Total lease payments for office equipment were \$4,346 in 2008.

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

<u>Year ending</u> <u>December 31,</u>	
2009	\$ 4,056
2010	4,056
2011	<u>338</u>
	<u>\$ 8,450</u>

(5) 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, 2008

(6) 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 93% of support and revenues was derived from these three agencies during the year ended December 31, 2008. These concentrations expose the Alliance to vulnerability and reliance on these agencies.

(7) 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 has a commitment to pay the consultant \$38,500 per year for services and expenses. During 2008 the Alliance paid \$38,500 to the consultant.

SUPPLEMENTAL INFORMATION

TENNESSEE ALLIANCE FOR LEGAL SERVICES

Schedule of State Awards

For the Year Ended December 31, 2008

	<u>Federal CFDA Number</u>	<u>Pass-Through Number</u>	<u>Contract Period</u>	<u>Contract Amount</u>	<u>Contract Funds Receivable December 31, 2007</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Contract Funds Receivable December 31, 2008</u>
State of Tennessee:								
Department of Children's Services -								
DCS Litigation	State	FA00415324-00	07/01/03 - 06/30/08	\$ 1,008,334	\$ 51,101	75,084	47,589	23,606
DCS Litigation	State	FA00415324-00	07/01/08 - 06/30/13	750,000	-	-	60,185	60,185
Department of Human Services -								
DHS Social Security Project	State	-	07/01/07 - 06/30/09	440,000	5,638	111,404	121,429	15,663
Administrative Office of the Courts -								
Civil Legal Representation of								
Indigents Funds	State	-	07/01/08 - 06/30/09	-	-	380,339	380,339	-
Blue Ribbon Grant	State	-	12/13/07 - 12/12/09	215,748	-	56,587	63,190	6,603
Department of Finance and Administration -								
Bureau of TennCare	State	-	04/01/08 - 12/31/08	300,000	-	18,800	34,800	16,000
					\$ 56,739	642,214	707,532	122,057

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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, 2008, and have issued our report thereon dated June 10, 2009. 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.

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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Alliance's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify and 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 June 10, 2009.

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.

June 10, 2009

Rayburn, Bates & Fitzgerald, P.C.