TENNESSEE JUSTICE CENTER, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TENNESSEE JUSTICE CENTER, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Tennessee Justice Center, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Tennessee Justice Center, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and other changes in net assets – modified cash basis and cash flows – modified cash basis for the years 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 in the first paragraph present fairly, in all material respects, the assets, liabilities, and net assets of Tennessee Justice Center, Inc. as of December 31, 2018 and 2017, and its revenues, expenses, and other changes in net assets and cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Changes in Financial Statement Presentation

As discussed in Note 1, Tennessee Justice Center, Inc. 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 with the exception of the disclosures of liquidity and availability of resources and functional expenses, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
August 9, 2019

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 207,186	$ 158,377
Investments	1,267,354	1,480,047
Total Current Assets	1,474,540	1,638,424
Office furniture and equipment	62,202	113,449
Less accumulated depreciation	(33,332)	(71,363)
Office furniture and equipment, net	28,870	42,086
Total Assets	$ 1,503,410	$ 1,680,510
NET ASSETS		
Net Assets:		
Without donor restrictions	$ 1,388,028	$ 1,613,002
With donor restrictions	115,382	67,508
Total Net Assets	$ 1,503,410	$ 1,680,510

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

TENNESSEE JUSTICE CENTER, INC.

STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS – MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Changes in Net Assets Without Donor Restrictions:		
Revenues Without Donor Restrictions:		
Contributions and foundation grants	$ 1,664,538	$ 1,619,218
Released from restriction for purpose accomplished	129,953	139,256
Dividends and investment income	34,200	33,425
Contract revenue	25,250	34,862
Miscellaneous revenue	325	5,071
Realized/unrealized (loss) gain on investments	(119,588)	140,502
Total Revenues Without Donor Restrictions	1,734,678	1,972,334
Expenses Paid:		
Salaries and benefits	1,561,321	1,328,283
Contract services:		
Professional fees and other	80,912	130,345
Other expenses:		
Occupancy	105,026	121,967
Donor development	54,048	73,346
Miscellaneous	40,922	22,884
Training	32,487	45,686
Equipment maintenance	23,643	29,456
Depreciation	15,105	14,879
Audit	8,800	8,500
Copies and printing	7,463	10,008
Insurance	6,978	7,326
Dues	6,741	4,053
Travel	6,008	3,407
Taxes and licenses	5,350	5,047
Postage	4,048	6,555
Moving expenses	800	24,779
Total Expenses Paid	1,959,652	1,836,521
Change in Net Assets Without Donor Restrictions	(224,974)	135,813
Changes in Net Assets With Donor Restrictions:		
Foundation grants	177,827	129,400
Released from restriction for purpose accomplished	(129,953)	(139,256)
Change in Net Assets With Donor Restrictions	47,874	(9,856)
Total change in net assets - modified cash basis	(177,100)	125,957
Net assets - modified cash basis, beginning of year	1,680,510	1,554,553
Net assets - modified cash basis, end of year	$ 1,503,410	$ 1,680,510

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF CASH FLOWS –
MODIFIED CASH BASIS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (177,100)	$ 125,957
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	15,105	14,879
Realized/unrealized loss (gain) on investments	119,588	(140,502)
Net cash (used in) provided by operating activities	(42,407)	334
Cash flows from investing activities:		
Purchases of office furniture and equipment	(1,889)	(44,970)
Purchases of investments	(301,156)	(195,943)
Sale of investments	394,261	302,000
Net cash provided by investing activities	91,216	61,087
Increase in cash and cash equivalents	48,809	61,421
Cash and cash equivalents, beginning of year	158,377	96,956
Cash and cash equivalents, end of year	$ 207,186	$ 158,377

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

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

Nature of Activities – Tennessee Justice Center, Inc. (the "Organization") is a nonprofit corporation established to provide free or below-cost civil legal services to indigent Tennesseans, through advocacy of all types, all in accordance with the statutes of Tennessee and the Rules of Professional Conduct, as adopted by the Supreme Court of Tennessee. Such legal services shall be provided with funds provided by both public and private sources, and through voluntary services. The Organization's office is located in Nashville, Tennessee, from which it serves clients throughout Tennessee.

Basis of Presentation – The Organization prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). Under the modified cash basis of accounting, support and revenue are recognized when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the 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 Organization 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 Organization had no net assets that were perpetual in nature at December 31, 2018 and 2017.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases to net assets with donor restrictions. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and are reported in the statements of revenues, expenses, and other changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restrictions.

Cash and Cash Equivalents – The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At times throughout the year, the Organization's cash in bank accounts may be in excess of federally insured limits.

Office Furniture and Equipment – Office furniture and equipment are recorded at cost. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. The estimated useful lives of office furniture and equipment range from three to seven years.

Income Taxes – The Organization has qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to federal income tax. Accordingly, no provision for income taxes has been made in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

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

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance concerning the accounting for uncertainty in 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. There are no tax penalties or interest reported in the accompanying financial statements.

Use of Estimates – The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Allocation of Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis for the disclosure of functional expenses (see Note 7). 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 benefits expense which are allocated based on time and effort.

New Accounting Pronouncement – 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 with the exception of the disclosures of liquidity and availability of resources and functional expenses, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

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 U.S. 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 Organization for the year ending December 31, 2019. The Organization 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 Organization is currently evaluating the effect of the implementation of this new standard.

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

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the year ending December 31, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statements of cash flows. This guidance is effective for the year ending December 31, 2019. The Organization is currently evaluating the effect of the implementation of this new standard.

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 Organization is currently evaluating the effect of the implementation of this new standard.

Subsequent Events – The Organization evaluated subsequent events through August 9, 2019, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of assets, liabilities, and net assets – modified cash basis date but prior to the filing of this report that would have a material impact on the financial statements.

Note 2—Liquidity and availability of resources

The Organization has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization considers general expenditures to be all expenditures related to its ongoing activities of achieving its mission.

The table below represents financial assets available for general expenditures within one year at December 31, 2018:

Financial assets at year-end:	
Cash	$ 207,186
Investments	1,267,354
Total financial assets	1,474,540
Less amounts not available to be used for general expenditures within one year:	
Funds restricted by donors to be used for a specific purpose	115,382
Financial assets not available to be used within one year	115,382
Financial assets available to meet general expenditures within one year	$ 1,359,158

Note 3—Fair value measurements and investments

The Organization has adopted the fair value measurement topic of the FASB ASC, which establishes a framework for measuring fair value. The 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 (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 Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include the following:

- 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 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 significant to the fair value measurement.

The 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There were no changes in the Organization's valuation techniques during 2018 and 2017. A description of the valuation methodologies used for assets measured at fair value is as follows:

Money Market Instruments – Valued at the net asset value of shares held by the Organization at year end.

Mutual Funds – Valued at the closing price reported on the active market on which the individual securities are traded.

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 Organization 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 fair value measurement at the reporting date.

Note 3—Fair value measurements and investments (continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 118,190	$ -	$ -	$ 118,190
Mutual Funds:				
Intermediate term bond	262,375	-	-	262,375
Short term bond	195,972	-	-	195,972
Foreign large blend	121,401	-	-	121,401
Large value	119,004	-	-	119,004
Small value	140,231	-	-	140,231
Large blend	75,171	-	-	75,171
Diversified emerging markets	63,370	-	-	63,370
Foreign small/mid blend	57,363	-	-	57,363
Small blend	65,807	-	-	65,807
Real estate	48,470	-	-	48,470
Total mutual funds	1,149,164	-	-	1,149,164
Total investment at fair value	$ 1,267,354	$ -	$ -	$ 1,267,354

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 73,719	$ -	$ -	$ 73,719
Mutual Funds:				
Intermediate term bond	285,821	-	-	285,821
Short term bond	218,141	-	-	218,141
Foreign large blend	179,656	-	-	179,656
Large value	155,395	-	-	155,395
Small value	126,407	-	-	126,407
Large blend	110,319	-	-	110,319
Diversified emerging markets	93,655	-	-	93,655
Foreign small/mid blend	92,605	-	-	92,605
Small blend	92,151	-	-	92,151
Real estate	52,178	-	-	52,178
Total mutual funds	1,406,328	-	-	1,406,328
Total investment at fair value	$ 1,480,047	$ -	$ -	$ 1,480,047

During 2018 and 2017, interest and dividends from investments totaled $34,200 and $33,425, respectively. Net realized and unrealized (losses) gains on investments totaled ($119,588) and $140,502 for the years ended December 31, 2018 and 2017, respectively.

Note 4—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of December 31:

	2018	2017
Organizational development	$ 41,550	$ -
Princeton fellowship	26,733	33,198
Melkus fellowship	25,090	-
CHOICES fellowship	20,636	16,866
Capital expenditures	1,373	7,222
AskJane!	-	10,222
	$ 115,382	$ 67,508

Note 5—Concentrations

The Organization receives support from various foundations, corporate and individual donors. During the year ended December 31, 2018, the Organization received $395,000, approximately 22% of revenues, from two grantors. During the year ended December 31, 2017, the Organization received $422,121, approximately 22% of revenues, from two grantors. A reduction in such amounts could have a significant effect on the Organization's activities.

Note 6—Operating lease

Effective January 1, 2017, the Organization entered into an operating lease agreement for rental of office space for a term of 60 months. The lease requires monthly payments ranging from $8,635 to $9,719 and expires December 31, 2021. Lease expense for office space totaled $97,847 and $103,904 for the years ended December 31, 2018 and 2017, respectively.

Additionally, effective May 26, 2017, the Organization entered into an operating lease agreement for rental of a copier for a term of 48 months.

Future minimum lease payments required under all noncancelable operating lease agreements as of December 31, 2018 are as follows:

Years Ending December 31,	
2019	$ 114,675
2020	117,952
2021	118,611
	$ 351,238

Note 7—Functional expenses

The costs of providing program and other activities have been summarized on a functional basis below for the year ended December 31, 2018:

	Program Services				Supporting Services		
	Health & Childrens Advocacy	Nutrition Advocacy	Legal Services and Partnerships	Total Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 507,098	$ 114,372	$ 625,933	$ 1,247,403	$ 171,632	$ 142,286	$ 1,561,321
Occupancy	34,659	7,352	42,010	84,021	11,553	9,452	105,026
Professional fees and other	54,555	411	14,551	69,517	10,867	528	80,912
Donor development	-	-	-	-	-	54,048	54,048
Miscellaneous	15,018	2,456	14,231	31,705	8,442	775	40,922
Training	12,995	3,249	16,243	32,487	-	-	32,487
Equipment maintenance	7,802	1,655	9,457	18,914	2,601	2,128	23,643
Depreciation	4,985	1,057	6,042	12,084	1,662	1,359	15,105
Audit	-	-	-	-	8,800	-	8,800
Copies and printing	2,463	522	2,985	5,970	821	672	7,463
Insurance	2,303	488	2,791	5,582	768	628	6,978
Dues	-	-	-	-	6,741	-	6,741
Travel	1,983	420	2,403	4,806	661	541	6,008
Taxes and licenses	-	-	-	-	5,350	-	5,350
Postage	1,336	283	1,619	3,238	445	365	4,048
Moving expenses	264	56	320	640	88	72	800
	$ 645,461	$ 132,321	$ 738,585	$ 1,516,367	$ 230,431	$ 212,854	$ 1,959,652