

TENNESSEE JUSTICE CENTER, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2011 and 2010

TENNESSEE JUSTICE CENTER, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Tennessee Justice Center, Inc. (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and other changes in net assets – modified cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the Organization's policy is to prepare 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Tennessee Justice Center, Inc. as of December 31, 2011 and 2010 and its revenues, expenses and other changes in net assets for the years then ended, on the basis of accounting described in Note 1.

Frasier, Dean & Howard, PLLC

August 30, 2012

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 62,258	\$ 65,631
Investments	<u>606,423</u>	<u>1,078,879</u>
Total current assets	<u>668,681</u>	<u>1,144,510</u>
Office furniture and equipment	48,375	52,330
Less accumulated depreciation	<u>(38,754)</u>	<u>(46,521)</u>
Office furniture and equipment, net	<u>9,621</u>	<u>5,809</u>
Total assets	<u><u>\$ 678,302</u></u>	<u><u>\$ 1,150,319</u></u>
Net Assets		
Net assets:		
Unrestricted	\$ 678,302	\$ 1,125,319
Temporarily restricted	<u>-</u>	<u>25,000</u>
Total net assets	<u><u>\$ 678,302</u></u>	<u><u>\$ 1,150,319</u></u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Revenues collected:		
Foundation grants	\$ 239,000	\$ 314,000
Contributions	188,002	93,233
Endowment income	13,850	21,760
Miscellaneous	6,279	6,350
Honorarium	850	-
Interest	211	474
Released from restriction for purpose accomplished	65,476	16,493
Total unrestricted revenues	<u>513,668</u>	<u>452,310</u>
Expenses paid:		
Salaries	<u>558,900</u>	<u>552,443</u>
Contract services:		
Tennessee Health Care Campaign	42,000	102,000
Public relations	27,816	20,622
Administrative expense - endowment account	7,372	5,102
Other	2,771	2,474
Interpretation	2,494	2,576
Attorney fees	-	6,048
Total contract services	<u>82,453</u>	<u>138,822</u>
Other expenses:		
Litigation	67,580	41,831
Employee benefits	65,186	64,496
Payroll taxes	44,640	44,139
Rent	38,234	39,178
Equipment maintenance	21,613	21,120
Telephone	16,285	16,346
Copies and printing	10,949	9,786
Audit	6,700	6,400
Office supplies	6,319	6,344
Insurance	5,725	5,814
Postage	5,174	5,707
Miscellaneous	4,664	112
Depreciation	4,192	5,527
Dues	3,659	4,268
Travel	3,500	3,449
Training	2,529	2,545
Taxes and licenses	2,142	2,602
Mother's Day reception	1,026	262
Law library and publications	348	595
Total other expenses	<u>310,465</u>	<u>280,521</u>
Total expenses paid	<u>951,818</u>	<u>971,786</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS (Continued)
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Other:		
Realized/unrealized (loss) gain on investments	(8,867)	139,184
Decrease in unrestricted net assets	(447,017)	(380,292)
Changes in temporarily restricted net assets:		
Foundation grants	40,476	41,493
Released from restriction for purpose accomplished	(65,476)	(16,493)
(Decrease) increase in temporarily restricted net assets	(25,000)	25,000
Total change in net assets - modified cash basis	(472,017)	(355,292)
Net assets - modified cash basis at beginning of year	1,150,319	1,505,611
Net assets - modified cash basis at end of year	<u>\$ 678,302</u>	<u>\$ 1,150,319</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Tennessee Justice Center, Inc. (the “Organization”) is a non-profit 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 has offices 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. 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:

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 Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets. Temporarily restricted net assets amounted to \$0 and \$25,000 at December 31, 2011 and 2010, respectively. There were no permanently restricted net assets at December 31, 2011 and 2010. See note 3 for a breakdown of temporarily restricted net assets.

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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (“FASB 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 fifty percent likely of being realized upon ultimate settlement. Tax years that remain open for examination include years ended December 31, 2008 through December 31, 2011. There are no tax penalties or interest reported in the accompanying financial statements.

Subsequent Events

The Organization evaluated subsequent events through August 30, 2012, 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 date but prior to the filing of this report that would have a material impact on the financial statements.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – 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;
- 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. 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.

Equity securities and 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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

	2011			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 93,019	\$ -	\$ -	\$ 93,019
Equity securities:				
Common stock – energy	26,739	-	-	26,739
Common stock – materials	13,748	-	-	13,748
Common stock – industrials	48,077	-	-	48,077
Common stock – consumer discretionary	48,172	-	-	48,172
Common stock – consumer staples	19,963	-	-	19,963
Common stock – health care	17,049	-	-	17,049
Common stock – financials	13,730	-	-	13,730
Common stock – information technology	101,528	-	-	101,528
Common stock – foreign	24,307	-	-	24,307
Common stock – exchange traded	58,087	-	-	58,087
Total equity securities	371,400	-	-	371,400
Mutual funds:				
International stock fund	51,786	-	-	51,786
Intermediate-term bond	90,218	-	-	90,218
Total mutual funds	142,004	-	-	142,004
Total assets at fair value	\$ 606,423	\$ -	\$ -	\$ 606,423

	2010			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 49,649	\$ -	\$ -	\$ 49,649
Equity securities:				
Common stock – energy	36,868	-	-	36,868
Common stock – materials	23,019	-	-	23,019
Common stock – industrials	82,042	-	-	82,042
Common stock – consumer discretionary	80,714	-	-	80,714
Common stock – consumer staples	28,580	-	-	28,580
Common stock – health care	13,061	-	-	13,061
Common stock – financials	24,389	-	-	24,389
Common stock – information technology	151,336	-	-	151,336
Common stock – foreign	33,123	-	-	33,123
Total equity securities	473,132	-	-	473,132

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Mutual funds:

Mid cap stock fund	89,156	-	-	89,156
International stock fund	73,676	-	-	73,676
Fixed income fund	<u>393,266</u>	<u>-</u>	<u>-</u>	<u>393,266</u>
Total mutual funds	<u>556,098</u>	<u>-</u>	<u>-</u>	<u>556,098</u>
Total assets at fair value	<u>\$ 1,078,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,078,879</u>

During 2011 and 2010, interest and dividends from investments totaled \$14,061 and \$22,234, respectively. Net realized and unrealized (losses) gains on investments amounted to (\$8,867) and \$139,184 for the years ended December 31, 2011 and 2010, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

During the years ended December 31, 2011 and 2010, the Organization received \$32,976 and \$41,493, respectively, restricted for support of the Legal Education, Advocacy, Services and Empowerment (“LEASE”) Program. At December 31, 2011 and 2010, remaining funds restricted for the LEASE Program totaled \$0 and \$25,000, respectively.

During 2011, the Organization received \$7,500 restricted for the purchase of a new server. At December 31, 2011, remaining funds restricted for this purpose totaled \$0.

NOTE 4 – DONATED SERVICES

Contributed professional services are typically recognized as in-kind contributions if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2011 and 2010, the Organization received approximately \$4,900,000 and \$745,000, respectively, of pro-bono legal representation from various entities on behalf of its clients. In addition, the Organization received in-kind legal research resources valued at \$22,500 during both 2011 and 2010. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2011 and 2010, the Organization received a significant amount of contributed time from board members and other volunteers that did not meet the criteria for financial statement recognition.

NOTE 5 – CONCENTRATIONS

The Organization receives support from various foundations, corporate and individual donors. A reduction in such amounts could have a significant effect on the Organization’s activities.

The Organization received \$215,000, approximately 44% of revenue, and \$225,000, approximately 47% of revenue, from one grantor for the year ended December 31, 2011 and 2010, respectively.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 6 – OPERATING LEASE

The Organization conducts its operations from office space under an operating lease. The current lease expires in March 2013. Lease expense for office space totaled \$38,234 and \$39,178 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

For Year Ended December 31,	
2012	\$ 34,721
2013	<u>8,745</u>
Total	<u>\$ 43,466</u>

NOTE 7 – CONTINGENT FEES

The Organization is seeking an award of fees and expenses under the Civil Rights Attorneys' Fees Act for its successful representation of 1.2 million TennCare enrollees in class action litigation known as *C.J. v. Emkes* (formerly known as *Grier v. Goetz*). In connection therewith, on July 9, 2010, the United States District Court for the Middle District of Tennessee awarded the Organization \$2,086,278 against the State of Tennessee in attorneys' fees for work performed in the case between November 2003 and January 2007. The state has opposed any award, and the ruling is on appeal to the Sixth Circuit Court of Appeals. The Organization believes that its application for a fee award is well supported by the facts and the law, but the ultimate resolution of the dispute is not currently known.