TENNESSEE JUSTICE CENTER, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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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) (the "Organization"), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2019 and 2018, 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 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 8, toward the end of December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen, which could negatively impact the Organization's investments and support and revenue for an indeterminable time period. Other financial impacts could occur though such potential impacts are unknown at this time. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
September 15, 2020

TENNESSEE JUSTICE CENTER, INC.

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS

DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 362,975	$ 207,186
Investments	1,425,303	1,267,354
Total Current Assets	1,788,278	1,474,540
Office furniture and equipment	70,379	62,202
Less accumulated depreciation	(47,672)	(33,332)
Office furniture and equipment, net	22,707	28,870
Total Assets	$ 1,810,985	$ 1,503,410
NET ASSETS		
Net Assets:		
Without donor restrictions	$ 1,688,650	$ 1,388,028
With donor restrictions	122,335	115,382
Total Net Assets	$ 1,810,985	$ 1,503,410

TENNESSEE JUSTICE CENTER, INC.

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

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions:		
Revenues Without Donor Restrictions:		
Contributions and foundation grants	$ 1,991,735	$ 1,664,538
Released from restriction for purpose accomplished	160,842	129,953
Dividends and investment income	35,735	34,200
Contract revenue	22,195	25,250
Miscellaneous revenue	1,208	325
Realized/unrealized gain (loss) on investments	172,865	(119,588)
Total Revenues Without Donor Restrictions	2,384,580	1,734,678
Expenses Paid:		
Salaries and benefits	1,650,593	1,561,321
Contract Services:		
Professional fees and other	80,108	80,912
Other Expenses:		
Occupancy	123,589	105,026
Donor development	57,087	54,048
Miscellaneous	38,888	40,922
Training	34,833	32,487
Equipment maintenance	35,425	23,643
Depreciation	14,340	15,105
Audit	7,600	8,800
Copies and printing	9,326	7,463
Insurance	7,896	6,978
Dues	5,335	6,741
Travel	9,918	6,008
Taxes and licenses	6,226	5,350
Postage	2,274	4,048
Moving expenses	520	800
Total Expenses Paid	2,083,958	1,959,652
Change in Net Assets Without Donor Restrictions	300,622	(224,974)
Changes in Net Assets With Donor Restrictions:		
Foundation grants	167,795	177,827
Released from restriction for purpose accomplished	(160,842)	(129,953)
Change in Net Assets With Donor Restrictions	6,953	47,874
Change in net assets - modified cash basis	307,575	(177,100)
Net assets - modified cash basis, beginning of year	1,503,410	1,680,510
Net assets - modified cash basis, end of year	$ 1,810,985	$ 1,503,410

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

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

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets - modified cash basis	$ 307,575	$ (177,100)
Adjustments to reconcile change in net assets - modified cash basis to net cash provided by (used in) operating activities:		
Depreciation	14,340	15,105
Realized/unrealized (gain) loss on investments	(172,865)	119,588
Net cash provided by (used in) operating activities	149,050	(42,407)
Cash flows from investing activities:		
Purchases of office furniture and equipment	(8,176)	(1,889)
Purchases of investments	(122,445)	(301,156)
Sale of investments	137,360	394,261
Net cash provided by investing activities	6,739	91,216
Increase in cash and cash equivalents	155,789	48,809
Cash and cash equivalents, beginning of year	207,186	158,377
Cash and cash equivalents, end of year	$ 362,975	$ 207,186

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. 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. In addition, the Organization records investments and office furniture and equipment and related depreciation.

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, 2019 and 2018.

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 (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 consist primarily of salaries and benefits expense which are allocated based on time and effort.

Adoption of New Accounting Standard – In June 2018, FASB issued Accounting Standards Update ("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 a 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 Organization evaluated the new standard and determined the accounting standard did not require a change to the Organization's practices for recording contributions.

Accounting Policy for Future Pronouncement – In January 2016, 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.

Subsequent Events – See Note 8.

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:

	2019	2018
Financial assets at year-end:		
Cash	$ 362,975	$ 207,186
Investments	1,425,303	1,267,354
Total financial assets at year-end	1,788,278	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	122,335	115,382
Financial assets not available to be used within one year	122,335	115,382
Financial assets available to meet general expenditures within one year	$ 1,665,943	$ 1,359,158

Note 3—Fair value measurements and investments

The Organization has adopted the fair value measurement topic of 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.

Note 3—Fair value measurements and investments (continued)

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 2019 and 2018. 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.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2019:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 76,629	$ -	$ -	$ 76,629
Mutual Funds:				
Intermediate term bond	281,185	-	-	281,185
Short term bond	200,914	-	-	200,914
Foreign large blend	143,529	-	-	143,529
Large value	157,052	-	-	157,052
Small value	172,640	-	-	172,640
Large blend	100,848	-	-	100,848
Diversified emerging markets	73,725	-	-	73,725
Foreign small/mid blend	72,094	-	-	72,094
Small blend	86,361	-	-	86,361
Real estate	60,326	-	-	60,326
Total mutual funds	1,348,674	-	-	1,348,674
Total investment at fair value	$ 1,425,303	$ -	$ -	$ 1,425,303

Note 3—Fair value measurements and investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2018:

	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

During 2019 and 2018, interest and dividends from investments totaled $35,735 and $34,200, respectively. Net realized and unrealized gain (loss) on investments totaled $172,865 and ($119,588) for the years ended December 31, 2019 and 2018, respectively.

Note 4—Net assets with donor restrictions

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

	2019	2018
Organizational development	$ -	$ 41,550
Princeton fellowship	32,413	26,733
Melkus fellowship	28,682	25,090
CHOICES fellowship	54,286	20,636
Capital expenditures	-	1,373
Barrett fellowship	6,954	-
	$ 122,335	$ 115,382

Note 5—Concentrations

The Organization receives support from various foundations, corporate, and individual donors. During the year ended December 31, 2019, the Organization received $392,000, approximately 16% of revenues, from two grantors. During the year ended December 31, 2018, the Organization received $395,000, 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 $114,430 and $97,847 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments required under all noncancelable operating lease agreements as of December 31, 2019 are as follows:

Years Ending December 31,	
2020	$ 117,952
2021	118,611
	$ 236,563

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, 2019:

	Program Services				Supporting Services		
	Health & Childrens Advocacy	Nutrition Advocacy	Legal Services and Partnerships	Total Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 533,153	$ 170,851	$ 588,085	$ 1,292,089	$ 187,169	$ 171,335	$ 1,650,593
Occupancy	39,829	12,838	43,985	96,652	14,058	12,879	123,589
Professional fees and other	45,261	218	29,293	74,772	1,837	3,499	80,108
Donor development	-	-	-	-	-	57,087	57,087
Miscellaneous	5,038	1,435	8,141	14,614	6,624	13,595	34,833
Training	18,185	4,678	16,025	38,888	-	-	38,888
Equipment maintenance	11,416	3,680	12,608	27,704	4,030	3,691	35,425
Depreciation	4,621	1,490	5,104	11,215	1,631	1,494	14,340
Audit	-	-	-	-	7,600	-	7,600
Copies and printing	3,005	969	3,319	7,293	1,061	972	9,326
Insurance	2,545	820	2,810	6,175	898	823	7,896
Dues	-	-	-	-	5,335	-	5,335
Travel	3,196	1,030	3,530	7,756	1,128	1,034	9,918
Taxes and licenses	-	-	-	-	6,226	-	6,226
Postage	733	236	809	1,778	259	237	2,274
Moving expenses	-	-	-	-	520	-	520
	$ 666,982	$ 198,245	$ 713,709	$ 1,578,936	$ 238,376	$ 266,646	$ 2,083,958

Note 7—Functional expenses (continued)

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

Note 8—Subsequent events

The Organization has evaluated subsequent events through September 15, 2020, when these financial statements were available to be issued.

As a result of the spread of COVID-19, economic uncertainties have arisen which have the potential to negatively impact the Organization’s investments and revenues. Other financial impacts could occur though such potential impacts are unknown at this time.

In accordance with Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), the Organization applied for and received a Paycheck Protection Program loan in April 2020, totaling $281,100. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans including accrued interest to the extent the Organization incurs certain qualifying expenses and maintains a certain level of average full-time equivalent employees during the measurement period following closing of the loan. Any portion of the loan that is not forgiven has a term of five years with an interest rate of 1%.