

**TENNESSEE JUSTICE CENTER, INC.**

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

**December 31, 2005 and 2004**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of the Tennessee Justice Center, Inc. (a non-profit organization) as of December 31, 2005 and 2004, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of the Tennessee Justice Center, Inc. as of December 31, 2005 and 2004 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*

May 12, 2006

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS**  
**December 31, 2005 and 2004**

<b>Assets</b>		
	<u><b>2005</b></u>	<u><b>2004</b></u>
Cash and cash equivalents	\$ 70,770	\$ 55,260
Investments	<u>2,937,970</u>	<u>3,692,601</u>
Total current assets	<u>3,008,740</u>	<u>3,747,861</u>
Office furniture and equipment	68,638	88,567
Less: Accumulated depreciation	<u>(45,588)</u>	<u>(59,095)</u>
Office furniture and equipment, net	<u>23,050</u>	<u>29,472</u>
Total assets	<u><u>\$ 3,031,790</u></u>	<u><u>\$ 3,777,333</u></u>
<b>Net Assets</b>		
Net assets	<u><u>\$ 3,031,790</u></u>	<u><u>\$ 3,777,333</u></u>

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES**  
**IN NET ASSETS - MODIFIED CASH BASIS**  
**December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Revenues collected:		
Foundation grants	\$ 181,000	\$ 232,635
Contributions	130,173	271,643
Endowment income	65,978	51,559
Miscellaneous	5,352	6,224
Honorarium	1,750	2,050
Interest	557	454
United Way of Middle Tennessee	-	26,570
Contract income	-	10,149
Attorney fee awards	-	2,022,705
	<hr/>	<hr/>
Total revenues	384,810	2,623,989
	<hr/>	<hr/>
Expenses paid:		
Salaries	579,393	453,028
	<hr/>	<hr/>
Contract services:		
Public relations	113,106	-
Attorney fees	92,535	-
Tennessee Health Care Campaign	40,000	36,000
Administrative expense - endowment account	27,827	20,971
Other	23,649	8,829
Interpretation	1,736	4,693
Welfare reform	-	3,000
Tennessee Citizen Action	-	8,250
	<hr/>	<hr/>
Total contract services	298,853	81,743
	<hr/>	<hr/>

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES**  
**IN NET ASSETS - MODIFIED CASH BASIS (Continued)**  
**December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Expenses paid (Continued):		
Other expenses:		
Litigation	\$ 80,831	\$ 10,739
Employee benefits	55,462	44,562
Payroll taxes	45,857	37,030
Rent	39,615	27,398
Copies and printing	12,545	18,100
Telephone	12,461	11,409
Depreciation	9,551	11,509
Equipment maintenance	8,885	11,689
Insurance	8,064	8,502
Office supplies	7,595	6,137
Dues	5,405	4,333
Audit	5,030	4,100
Postage	4,835	3,931
Miscellaneous	4,742	3,514
Taxes and licenses	4,530	4,195
Training	2,918	2,237
Travel	1,550	1,004
Law library and publications	1,547	1,312
	<u>311,423</u>	<u>211,701</u>
Total other expenses		
	<u>1,189,669</u>	<u>746,472</u>
Total expenses paid		
Other		
Unrealized (loss) gain on investments	(17,011)	189,263
Realized gain on investments	76,327	15,883
	<u>59,316</u>	<u>205,146</u>
Total other		
(Decrease) increase in net assets - modified cash basis	(745,543)	2,082,663
Net assets, modified cash basis at beginning of year	<u>3,777,333</u>	<u>1,694,670</u>
Net assets, modified cash basis at end of year	<u>\$ 3,031,790</u>	<u>\$ 3,777,333</u>

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005 and 2004**

**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. Revenue is generally recognized when received. 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.

**Cash and Cash Equivalents**

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

**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 is 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, Tennessee Justice Center, Inc. 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.

**TENNESSEE JUSTICE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2005 and 2004**

**NOTE 2 – INVESTMENTS**

Investments are stated at market, determined by the closing price on the last day of the year, and consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Money market instruments	\$ 267,824	\$ 255,647
Bonds	900,993	1,159,597
Equity securities	<u>1,769,153</u>	<u>2,277,357</u>
Total	<u>\$ 2,937,970</u>	<u>\$ 3,692,601</u>

During 2005 and 2004, interest and dividends from investments totaled \$66,535 and \$52,013, respectively. Net appreciation on investments amounted to \$59,316 and \$205,146 for the years ended December 31, 2005 and 2004, respectively.

**NOTE 3 – DONATED SERVICES**

Board members and other volunteers have assisted the Organization 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 Organization. Through a donation by Lexis/Nexis to the Tennessee Legal Community Foundation, the Organization has access to free legal research services, the value of which is significant but cannot be accurately estimated.

**NOTE 4 – 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 \$39,615 and \$27,398 for the years ended December 31, 2005 and 2004, respectively.

At December 31, 2005, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

2006	\$ 29,046
2007	29,932
2008	30,838
2009	31,775
2010	32,723
Thereafter	<u>77,168</u>
Total	<u>\$ 231,482</u>



**TENNESSEE JUSTICE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2005 and 2004**

**NOTE 5 – CONTRIBUTIONS**

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. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted.

**NOTE 6 – CONCENTRATIONS**

The Organization receives support from various foundations, corporate and individual donors. Additionally, the Organization received \$0 and \$2,022,705 in court-awarded attorney's fees in 2005 and 2004, respectively. A reduction in such amounts could have a significant effect on the Organization's activities.

**NOTE 7 – IN-KIND CONTRIBUTIONS**

During 2005, the Organization received \$1.68 million 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. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements.