

TENNESSEE JUSTICE CENTER, INC.

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

December 31, 2006 and 2005

TENNESSEE JUSTICE CENTER, INC.

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INDEPENDENT AUDITOR'S REPORT

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

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, 2006 and 2005, 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, 2006 and 2005 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

June 6, 2007

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 55,176	\$ 70,770
Investments	<u>2,749,203</u>	<u>2,937,970</u>
Total current assets	<u>2,804,379</u>	<u>3,008,740</u>
Office furniture and equipment	60,505	68,638
Less: Accumulated depreciation	<u>(38,645)</u>	<u>(45,588)</u>
Office furniture and equipment, net	<u>21,860</u>	<u>23,050</u>
Total assets	<u><u>\$ 2,826,239</u></u>	<u><u>\$ 3,031,790</u></u>
Net Assets		
Net assets	<u><u>\$ 2,826,239</u></u>	<u><u>\$ 3,031,790</u></u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues collected:		
Foundation grants	\$ 259,225	\$ 181,000
Contributions	138,077	130,173
Endowment income	66,571	65,978
Miscellaneous	13,537	5,352
Honorarium	2,750	1,750
Interest	<u>798</u>	<u>557</u>
Total revenues	<u>480,958</u>	<u>384,810</u>
Expenses paid:		
Salaries	<u>460,868</u>	<u>579,393</u>
Contract services:		
Attorney fees	51,339	92,535
Public relations	49,798	113,106
Tennessee Health Care Campaign	40,000	40,000
Administrative expense - endowment account	23,663	27,827
Communications project	9,253	-
Other	2,442	23,649
Interpretation	<u>1,249</u>	<u>1,736</u>
Total contract services	<u>177,744</u>	<u>298,853</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS (Continued)
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Expenses paid (Continued):		
Other expenses:		
Employee benefits	\$ 58,582	\$ 55,462
Rent	42,446	39,615
Payroll taxes	29,817	45,857
Litigation	14,894	80,831
Telephone	14,882	12,461
Copies and printing	13,177	12,545
Depreciation	10,284	9,551
Miscellaneous	8,360	4,742
Equipment maintenance	7,970	8,885
Insurance	7,822	8,064
Office supplies	6,492	7,595
Postage	5,914	4,835
Audit	5,225	5,030
Travel	4,795	1,550
Taxes and licenses	4,465	4,530
Law library and publications	3,409	1,547
Dues	2,788	5,405
Training	2,274	2,918
	<u>243,596</u>	<u>311,423</u>
Total other expenses		
	<u>882,208</u>	<u>1,189,669</u>
Total expenses paid		
Other		
Unrealized gain (loss) on investments	43,054	(17,011)
Realized gain on investments	152,645	76,327
	<u>195,699</u>	<u>59,316</u>
Total other		
Decrease in net assets - modified cash basis	(205,551)	(745,543)
Net assets - modified cash basis at beginning of year	<u>3,031,790</u>	<u>3,777,333</u>
Net assets - modified cash basis at end of year	<u>\$ 2,826,239</u>	<u>\$ 3,031,790</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

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. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. There were no temporarily or permanently restricted net assets at December 31, 2006 or 2005.

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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

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, 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.

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>2006</u>	<u>2005</u>
Money market instruments	\$ 255,039	\$ 267,824
Bonds	823,702	900,993
Equity securities	<u>1,670,462</u>	<u>1,769,153</u>
Total	<u>\$ 2,749,203</u>	<u>\$ 2,937,970</u>

During 2006 and 2005, interest and dividends from investments totaled \$67,369 and \$66,535, respectively. Net appreciation on investments amounted to \$195,699 and \$59,316 for the years ended December 31, 2006 and 2005, respectively.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

NOTE 3 – 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 2006 and 2005, the Organization received \$1.49 million and \$1.68 million, 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 2006 and 2005. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2006 and 2005, 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 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 \$42,446 and \$39,615 for the years ended December 31, 2006 and 2005, respectively.

At December 31, 2006, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

2007	\$ 29,932
2008	30,838
2009	31,775
2010	32,723
2011	33,702
Thereafter	<u>43,466</u>
Total	<u>\$ 202,436</u>

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.