

**TENNESSEE JUSTICE CENTER, INC.**

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

**December 31, 2004 and 2003**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of the Tennessee Justice Center, Inc. (a non-profit organization) as of December 31, 2004, and the related statement of revenues, expenses and other changes in net assets – modified cash basis for the year 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 audit. The financial statements of Tennessee Justice Center, Inc. as of December 31, 2003, were audited by other auditors whose report dated March 5, 2004, expressed an unqualified opinion on those statements prepared on the modified cash basis.

We conducted our audit 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 audit provides 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 the Tennessee Justice Center, Inc. as of December 31, 2004 and its revenues, expenses and other changes in net assets for the year then ended, on the basis of accounting described in Note 1.

*Frasier, Dean & Howard, PLLC*

May 11, 2005

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS**  
**December 31, 2004 and 2003**

<b>Assets</b>		
	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 55,260	\$ 55,518
Investments	<u>3,692,601</u>	<u>1,615,154</u>
Total current assets	<u>3,747,861</u>	<u>1,670,672</u>
Office furniture and equipment	88,567	71,584
Less: Accumulated depreciation	<u>(59,095)</u>	<u>(47,586)</u>
Office furniture and equipment, net	<u>29,472</u>	<u>23,998</u>
Total assets	<u><u>\$ 3,777,333</u></u>	<u><u>\$ 1,694,670</u></u>
<b>Net Assets</b>		
Net assets	<u><u>\$ 3,777,333</u></u>	<u><u>\$ 1,694,670</u></u>

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES**  
**IN NET ASSETS - MODIFIED CASH BASIS**  
**December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Revenues collected:		
Foundation grants	\$ 232,635	\$ 304,217
Grant - Metropolitan Government of Nashville and Davidson County	-	11,000
United Way of Middle Tennessee	26,570	57,699
Contract income	10,149	6,855
Attorney fee awards	2,022,705	1,336,152
Contributions	271,643	62,953
Fellowships	-	23,917
Honorarium	2,050	755
Endowment income	51,559	-
Interest	454	9,067
Miscellaneous	6,224	2,257
	<u>2,623,989</u>	<u>1,814,872</u>
Total revenues		
Expenses paid:		
Salaries	<u>453,028</u>	<u>425,702</u>
Contract services:		
Administratve expense - endowment account	20,971	-
National Health Law Program	-	10,000
Tennessee Health Care Campaign	36,000	35,000
Welfare reform	3,000	-
Interpretation	4,693	-
Tennessee Citizen Action	8,250	-
Other	8,829	2,086
	<u>81,743</u>	<u>47,086</u>
Total contract services		

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES**  
**IN NET ASSETS - MODIFIED CASH BASIS (Continued)**  
**December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Expenses paid (Continued):		
Other expenses:		
Audit	\$ 4,100	\$ 3,600
Copies and printing	18,100	13,994
Depreciation	11,509	15,087
Dues	4,333	6,526
Internet service	-	240
Employee benefits	44,562	39,861
Equipment maintenance	11,689	7,490
Insurance	8,502	6,865
Law library and publications	1,312	1,067
Litigation	10,739	113,879
Office supplies	6,137	6,666
Postage	3,931	4,579
Rent	27,398	24,018
Relocation	-	23,196
Taxes and licenses	4,195	3,000
Payroll taxes	37,030	32,397
Telephone	11,409	10,023
Training	2,237	1,859
Travel	1,004	1,544
Miscellaneous	3,514	1,878
	<u>211,701</u>	<u>317,769</u>
Total other expenses		
	<u>746,472</u>	<u>790,557</u>
Total expenses paid		
Other		
Unrealized gain on investments	189,263	26,621
Realized gain (loss) on investments	15,883	(579)
	<u>205,146</u>	<u>26,042</u>
Total other		
Increase in net assets - modified cash basis	2,082,663	1,050,357
Net assets, modified cash basis at beginning of year	<u>1,694,670</u>	<u>644,313</u>
Net assets, modified cash basis at end of year	<u>\$ 3,777,333</u>	<u>\$ 1,694,670</u>

See accompanying notes.

**TENNESSEE JUSTICE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2004 and 2003**

**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, 2004 and 2003**

**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>2004</u>	<u>2003</u>
Money market instruments	\$ 255,647	\$ 497,824
Bonds	1,159,597	404,630
Common stocks	2,277,357	706,731
Limited partnerships	<u>-</u>	<u>5,969</u>
Total	<u>\$ 3,692,601</u>	<u>\$ 1,615,154</u>

During 2004 and 2003, interest and dividends from investments totaled \$52,013 and \$9,067, respectively. Net appreciation on investments amounted to \$205,146 and \$26,042 for the years ended December 31, 2004 and 2003, 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 \$27,398 and \$24,018 for the years ended December 31, 2004 and 2003, respectively.



**TENNESSEE JUSTICE CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2004 and 2003**

**NOTE 4 – OPERATING LEASE (Continued)**

At December 31, 2004, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

2005	\$ 28,222
2006	29,046
2007	29,932
2008	30,838
2009	31,775
Thereafter	<u>109,891</u>
Total	<u>\$ 259,704</u>

**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 \$2,022,705 and \$1,336,152 in court-awarded attorney's fees in 2004 and 2003, respectively. A reduction in such amounts could have a significant effect on the Organization's activities.