TENNESSEE JUSTICE CENTER, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2016 and 2015

TENNESSEE JUSTICE CENTER, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1 – 2
Financial Statements:	
Statements of Assets, Liabilities and Net Assets – Modified Cash Basis	3
Statements of Revenues, Expenses, and Other Changes in Net Assets – Modified Cash Basis	4
Notes to Financial Statements	5 – 10

FRASIERDEAN
HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Tennessee Justice Center, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues, expenses and other changes in net assets – 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 audit 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

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, 2016 and 2015 and its revenues, expenses and other changes in net assets 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.

Frasier, Dean & Howard, PLLC

Nashville, Tennessee
August 18, 2017

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 96,956	$ 125,953
Investments	1,445,602	1,502,825
Total current assets	1,542,558	1,628,778
Office furniture and equipment	71,297	63,977
Less accumulated depreciation	(59,302)	(50,938)
Office furniture and equipment, net	11,995	13,039
Total assets	$ 1,554,553	$ 1,641,817
Net Assets		
Net assets:		
Unrestricted	$ 1,477,189	$ 1,500,925
Temporarily restricted	77,364	140,892
Total net assets	$ 1,554,553	$ 1,641,817

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
For the years ended December 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Unrestricted revenues:		
Contributions and foundation grants	$ 875,434	$ 860,438
Released from restriction for purpose accomplished	230,578	133,078
Realized/unrealized gain on investments	96,096	4,933
Miscellaneous	37,033	23,094
Contract revenue	34,630	29,874
Attorney fee awards	9,215	10,819
Total unrestricted revenues	1,282,986	1,062,236
Expenses paid:		
Salaries and benefits	902,517	769,991
Contract services:		
Professional fees and other	183,431	187,973
Other expenses:		
Occupancy	66,472	57,082
Donor development	32,864	63,922
Equipment maintenance	24,511	14,592
Training	23,162	15,571
Miscellaneous	17,303	15,517
Travel	9,288	2,499
Copies and printing	9,197	7,464
Depreciation	8,363	10,636
Audit	8,150	7,900
Insurance	6,794	5,277
Dues	6,455	4,982
Taxes and licenses	4,354	3,012
Postage	3,861	2,776
Total expenses paid	1,306,722	1,169,194
Change in unrestricted net assets	(23,736)	(106,958)
Changes in temporarily restricted net assets:		
Foundation grants	167,050	273,970
Released from restriction for purpose accomplished	(230,578)	(133,078)
Change in temporarily restricted net assets	(63,528)	140,892
Total change in net assets - modified cash basis	(87,264)	33,934
Net assets - modified cash basis at beginning of year	1,641,817	1,607,883
Net assets - modified cash basis at end of year	$ 1,554,553	$ 1,641,817

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – 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 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 classifications of net assets. There were no permanently restricted net assets at December 31, 2016 and 2015.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Subsequent Events

The Organization evaluated subsequent events through August 18, 2017, when these financial statements were available to be issued. Except for those stated in Note 6, management is not aware of any significant events that occurred subsequent to the statement of assets, liabilities and net assets – modified cash basis date but prior to the filing of this report that would have a material impact on the financial statements.

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. There were no changes in the Organization's valuation techniques during 2016 or 2015. 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.

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

	2016			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 75,769	$ -	$ -	$ 75,769
Mutual funds:				
Intermediate term bond	282,803	-	-	282,803
Short term bond	219,192	-	-	219,192
Small value	174,386	-	-	174,386
Large value	160,036	-	-	160,036
Foreign large blend	146,368	-	-	146,368
Large blend	101,693	-	-	101,693
Small blend	87,203	-	-	87,203
Foreign small/mid blend	73,226	-	-	73,226
Diversified emerging markets	73,050	-	-	73,050
Real estate	51,876	-	-	51,876
Total mutual funds	1,369,833	-	-	1,369,833
Total investments at fair value	$ 1,445,602	$ -	$ -	$ 1,445,602

	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 72,024	$ -	$ -	$ 72,024
Mutual funds:				
Intermediate term bond	311,085	-	-	311,085
Short term bond	233,677	-	-	233,677
Small value	172,843	-	-	172,843
Large value	168,577	-	-	168,577
Foreign large blend	147,244	-	-	147,244
Large blend	108,463	-	-	108,463
Small blend	86,109	-	-	86,109
Foreign small/mid blend	72,975	-	-	72,975
Real estate	65,359	-	-	65,359
Diversified emerging markets	64,469	-	-	64,469
Total mutual funds	1,430,801	-	-	1,430,801
Total investments at fair value	$ 1,502,825	$ -	$ -	$ 1,502,825

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

During 2016 and 2015, interest and dividends from investments totaled $36,761 and $22,682, respectively. Net realized and unrealized gains on investments totaled $96,096 and $4,933 for the years ended December 31, 2016 and 2015, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31:

	2016	2015
Princeton fellowship	$ 28,163	$ -
Technology transition	20,000	-
AskJane!	10,791	104,831
Nutrition advocacy	10,663	-
CHOICES fellowship	7,747	36,061
	$ 77,364	$ 140,892

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 2016 and 2015, the Organization received approximately $51,000 and $242,000, 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 2016 and 2015. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2016 and 2015, 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. During the year ended December 31, 2016, the Organization received $127,382, approximately 10% of revenues, from one grantor. During the year ended December 31, 2015, the Organization received $472,055, approximately 39% of revenues, from three grantors. A reduction in such amounts could have a significant effect on the Organization's activities.

NOTE 6 – OPERATING LEASE

The Organization conducts its operations from office space under an operating lease. The current lease expired December 31, 2013, and has continued on a month-to-month basis under the same terms. Lease expense for office space totaled $46,401 and $41,200 for the years ended December 31, 2016 and 2015, respectively.

Effective January 1, 2017, the Organization entered into an operating lease agreement for rental of office space for a term of 60 months. Additionally, effective May 26, 2017, the Organization entered into an operating lease agreement for rental of a copier for a term of 48 months. Future minimum lease payments required under all noncancelable operating lease agreements entered into subsequent to December 31, 2016 are as follows:

Year ending December 31,	
2017	$ 106,405
2018	111,506
2019	114,675
2020	117,952
2021	118,611
	$ 569,149