

TENNESSEE JUSTICE CENTER, INC.

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

December 31, 2015 and 2014

TENNESSEE JUSTICE CENTER, INC.

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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, 2015 and 2014, 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.

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, 2015 and 2014 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, Don & Hand, PLLC

Nashville, Tennessee
August 1, 2016

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 125,953	\$ 97,390
Investments	<u>1,502,825</u>	<u>1,489,589</u>
Total current assets	<u>1,628,778</u>	<u>1,586,979</u>
Office furniture and equipment	63,977	64,310
Less accumulated depreciation	<u>(50,938)</u>	<u>(43,406)</u>
Office furniture and equipment, net	<u>13,039</u>	<u>20,904</u>
Total assets	<u><u>\$ 1,641,817</u></u>	<u><u>\$ 1,607,883</u></u>
Net Assets		
Net assets:		
Unrestricted	\$ 1,500,925	\$ 1,607,883
Temporarily restricted	<u>140,892</u>	<u>-</u>
Total net assets	<u><u>\$ 1,641,817</u></u>	<u><u>\$ 1,607,883</u></u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in unrestricted net assets:		
Unrestricted revenues:		
Contributions and foundation grants	\$ 860,438	\$ 548,580
Released from restriction for purpose accomplished	133,078	233,726
Contract revenue	29,874	47,161
Miscellaneous	23,094	31,785
Attorney fee awards	10,819	-
Realized/unrealized gain on investments	4,933	69,731
Total unrestricted revenues	<u>1,062,236</u>	<u>930,983</u>
Expenses paid:		
Salaries and benefits	769,991	633,062
Contract services:		
Consulting fees for Community Catalyst	101,477	-
Professional fees and other	92,360	58,178
Other expenses:		
Donor development	63,922	26,323
Occupancy	57,082	57,117
Equipment maintenance	14,592	16,954
Training	14,450	9,406
Miscellaneous	10,774	23,234
Depreciation	10,636	10,237
Audit	7,900	7,600
Copies and printing	7,464	6,075
Insurance	5,277	4,611
Dues	4,982	3,353
Taxes and licenses	3,012	4,260
Postage	2,776	2,459
Travel	2,499	2,716
Total expenses paid	<u>1,169,194</u>	<u>865,585</u>
Change in unrestricted net assets	<u>(106,958)</u>	<u>65,398</u>
Changes in temporarily restricted net assets:		
Foundation grants	273,970	233,726
Released from restriction for purpose accomplished	<u>(133,078)</u>	<u>(233,726)</u>
Change in temporarily restricted net assets	<u>140,892</u>	<u>-</u>
Total change in net assets - modified cash basis	33,934	65,398
Net assets - modified cash basis at beginning of year	<u>1,607,883</u>	<u>1,542,485</u>
Net assets - modified cash basis at end of year	<u>\$ 1,641,817</u>	<u>\$ 1,607,883</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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, 2015 and 2014.

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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

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. Tax years that remain open for examination include years ended December 31, 2012 through December 31, 2015. 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.

Subsequent Events

The Organization evaluated subsequent events through August 1, 2016, when these financial statements were available to be issued. 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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

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 2015 or 2014. 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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

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:

	2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>64,469</u>	<u>-</u>	<u>-</u>	<u>64,469</u>
Total mutual funds	<u>1,430,801</u>	<u>-</u>	<u>-</u>	<u>1,430,801</u>
Total investments at fair value	<u>\$ 1,502,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,502,825</u>

	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 94,137	\$ -	\$ -	\$ 94,137
Equity securities:				
Exchange traded funds	176,981	-	-	176,981
Mutual funds:				
Large value	384,725	-	-	384,725
Large growth	372,314	-	-	372,314
Ultrashort bond	117,543	-	-	117,543
High yield bond	62,329	-	-	62,329
Intermediate term bond	60,713	-	-	60,713
Diversified emerging markets	50,771	-	-	50,771
Foreign large blend	50,168	-	-	50,168
Small blend	49,030	-	-	49,030

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds (continued):				
Small growth	45,700	-	-	45,700
World bond	<u>25,178</u>	<u>-</u>	<u>-</u>	<u>25,178</u>
Total mutual funds	<u>1,218,471</u>	<u>-</u>	<u>-</u>	<u>1,218,471</u>
Total investments at fair value	<u>\$ 1,489,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,489,589</u>

During 2015 and 2014, interest and dividends from investments totaled \$22,682 and \$16,873, respectively. Net realized and unrealized gains on investments totaled \$4,933 and \$69,731 for the years ended December 31, 2015 and 2014, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
AskJane!	\$ 104,831	\$ -
CHOICES Fellowship	<u>36,061</u>	<u>-</u>
	<u>\$ 140,892</u>	<u>\$ -</u>

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 2015 and 2014, the Organization received approximately \$242,000 and \$166,000, 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 2015 and 2014. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2015 and 2014, 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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2015 and 2014

NOTE 5 – CONCENTRATIONS

The Organization receives support from various foundations, corporate and individual donors. During the year ended December 31, 2015, the Organization received \$472,055, approximately 39% of revenues from three grantors. During the year ended December 31, 2014, the Organization received \$318,726, approximately 34% of revenues from two 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 \$41,200 for each of the years ended December 31, 2015 and 2014.