

TENNESSEE JUSTICE CENTER, INC.

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

December 31, 2009 and 2008

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 statements of assets, liabilities and net assets – modified cash basis of the Tennessee Justice Center, Inc. (a non-profit organization) as of December 31, 2009 and 2008, 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 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, 2009 and 2008 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 15, 2010

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 50,983	\$ 43,999
Investments	<u>1,447,037</u>	<u>1,546,777</u>
Total current assets	<u>1,498,020</u>	<u>1,590,776</u>
Office furniture and equipment	51,141	49,269
Less: Accumulated depreciation	<u>(43,550)</u>	<u>(36,370)</u>
Office furniture and equipment, net	<u>7,591</u>	<u>12,899</u>
Total assets	<u><u>\$ 1,505,611</u></u>	<u><u>\$ 1,603,675</u></u>
Net Assets		
Net assets	<u><u>\$ 1,505,611</u></u>	<u><u>\$ 1,603,675</u></u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues collected:		
Foundation grants	\$ 414,817	\$ 445,977
Contributions	116,528	113,026
Endowment income	34,759	46,474
Contract income	3,510	3,000
Miscellaneous	1,903	4,657
Interest	628	660
Honorarium	500	100
	<u>572,645</u>	<u>613,894</u>
Total revenues		
Expenses paid:		
Salaries	<u>491,877</u>	<u>469,357</u>
Contract services:		
Attorney fees	61,987	42,920
Tennessee Health Care Campaign	48,450	42,000
Public relations	29,684	24,675
Other	10,873	6,438
Administrative expense - endowment account	6,178	12,964
Communications project	-	62,677
Consulting fees	-	2,850
	<u>157,172</u>	<u>194,524</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Expenses paid (Continued):		
Other expenses:		
Employee benefits	\$ 65,562	\$ 60,006
Rent	47,802	48,947
Payroll taxes	40,008	34,523
Equipment maintenance	19,680	17,940
Telephone	16,751	15,297
Copies and printing	12,017	16,542
Litigation	9,330	35,346
Depreciation	7,319	8,153
Office supplies	7,047	11,475
Audit	6,104	5,800
Insurance	5,692	7,507
Postage	4,935	4,552
Training	4,192	4,034
Travel	4,102	450
Dues	3,759	3,499
Mother's Day reception	3,284	-
Miscellaneous	2,385	12,358
Taxes and licenses	2,149	2,535
Law library and publications	1,195	2,655
	<u>263,313</u>	<u>291,619</u>
Total other expenses		
	<u>912,362</u>	<u>955,500</u>
Total expenses paid		
Other:		
Realized/unrealized gain (loss) on investments	<u>241,653</u>	<u>(603,225)</u>
Decrease in net assets - modified cash basis	(98,064)	(944,831)
Net assets - modified cash basis at beginning of year	<u>1,603,675</u>	<u>2,548,506</u>
Net assets - modified cash basis at end of year	<u>\$ 1,505,611</u>	<u>\$ 1,603,675</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

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.

Accounting Standards Codification

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC has no effect on the Organization's statements of assets, liabilities and net assets – modified cash basis, or revenues, expenses, and other changes in net assets – modified cash basis.

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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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, 2009 and 2008.

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 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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

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 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. 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 ("NAV") of shares held by the Organization at year end.

U.S. Treasury bonds and corporate bonds: Valued at the closing price reported on the active market on which the individual securities are traded.

Equity securities and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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.

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

2009				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 26,871	\$ -	\$ -	\$ 26,871
Equity securities:				
Common stock – energy	37,828	-	-	37,828
Common stock – materials	21,001	-	-	21,001
Common stock – industrials	74,682	-	-	74,682
Common stock – consumer discretionary	67,641	-	-	67,641
Common stock – consumer staples	57,677	-	-	57,677
Common stock – health care	25,647	-	-	25,647
Common stock – financials	33,981	-	-	33,981
Common stock – information technology	239,647	-	-	239,647
Common stock – foreign	25,812	-	-	25,812
Total equity securities	<u>583,916</u>	<u>-</u>	<u>-</u>	<u>583,916</u>
Mutual funds:				
Mid cap stock fund	107,239	-	-	107,239
International stock fund	95,721	-	-	95,721
Fixed income fund	633,290	-	-	633,290
Total Mutual funds	<u>836,250</u>	<u>-</u>	<u>-</u>	<u>836,250</u>
Total assets at fair value	<u>\$ 1,447,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,447,037</u>
2008				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 570,813	\$ -	\$ -	\$ 570,813
U.S. Treasury bonds	112,407	-	-	112,407
Corporate bonds	208,264	-	-	208,264
Equity securities	655,293	-	-	655,293
Total assets at fair value	<u>\$ 1,546,777</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,546,777</u>

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

During 2009 and 2008, interest and dividends from investments totaled \$35,387 and \$47,134, respectively. Net gains (losses) on investments amounted to \$241,653 and (\$603,225) for the years ended December 31, 2009 and 2008, respectively.

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 2009 and 2008, the Organization received \$1.82 million and \$4.21 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 2009 and 2008. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2009 and 2008, 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 \$47,802 and \$48,947 for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

For Year Ended <u>December 31,</u>	
2010	\$ 32,249
2011	33,207
2012	34,206
2013	<u>26,234</u>
Total	<u>\$ 125,896</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.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 6 – CONTINGENT FEES

The Organization is seeking an award of fees and expenses related to its involvement in class action litigation known as Grier v. Goetz. In connection therewith, the Organization has applied for a fee award of \$2,841,979 against the State of Tennessee. On March 7, 2006, The United States District Court ruled that the Organization's clients were partially prevailing parties within the meaning of the Civil Rights Attorney's Fees Awards Act, and that the Organization was therefore entitled to a fee award. The amount of such award remains to be adjudicated. The State of Tennessee has resisted the fee application and the matter is currently being resolved in court. The Organization believes that its application for a fee award is well supported by the facts and the law, but the ultimate resolution of the dispute is not currently known.

NOTE 7 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through June 15, 2010 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.