

TENNESSEE JUSTICE CENTER, INC.

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

December 31, 2010 and 2009

TENNESSEE JUSTICE CENTER, INC.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	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 – 5
Notes to Financial Statements	6 – 11



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

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 Tennessee Justice Center, Inc. (a non-profit organization) as of December 31, 2010 and 2009, 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 that 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 Tennessee Justice Center, Inc. as of December 31, 2010 and 2009 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

July 18, 2011

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 65,631	\$ 50,983
Investments	<u>1,078,879</u>	<u>1,447,037</u>
Total current assets	<u>1,144,510</u>	<u>1,498,020</u>
Office furniture and equipment	52,330	51,141
Less accumulated depreciation	<u>(46,521)</u>	<u>(43,550)</u>
Office furniture and equipment, net	<u>5,809</u>	<u>7,591</u>
Total assets	<u><u>\$ 1,150,319</u></u>	<u><u>\$ 1,505,611</u></u>
Net Assets		
Net assets:		
Unrestricted	\$ 1,125,319	\$ 1,505,611
Temporarily restricted	<u>25,000</u>	<u>-</u>
Total net assets	<u><u>\$ 1,150,319</u></u>	<u><u>\$ 1,505,611</u></u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Revenues collected:		
Foundation grants	\$ 314,000	\$ 414,817
Contributions	93,233	116,528
Endowment income	21,760	34,759
Miscellaneous	6,350	1,903
Interest	474	628
Contract income	-	3,510
Honorarium	-	500
Released from restriction for purpose accomplished	16,493	-
Total unrestricted revenues	<u>452,310</u>	<u>572,645</u>
Expenses paid:		
Salaries	<u>552,443</u>	<u>491,877</u>
Contract services:		
Tennessee Health Care Campaign	102,000	48,450
Public relations	20,622	29,684
Attorney fees	6,048	61,987
Administrative expense - endowment account	5,102	6,178
Interpretation	2,576	-
Other	2,474	10,873
Total contract services	<u>138,822</u>	<u>157,172</u>
Other expenses:		
Employee benefits	64,496	65,562
Payroll taxes	44,139	40,008
Litigation	41,831	9,330
Rent	39,178	47,802
Equipment maintenance	21,120	19,680
Telephone	16,346	16,751
Copies and printing	9,786	12,017
Audit	6,400	6,104
Office supplies	6,344	7,047
Insurance	5,814	5,692
Postage	5,707	4,935
Depreciation	5,527	7,319
Dues	4,268	3,759
Travel	3,449	4,102
Taxes and licenses	2,602	2,149
Training	2,545	4,192
Law library and publications	595	1,195
Mother's Day reception	262	3,284
Miscellaneous	112	2,385
Total other expenses	<u>280,521</u>	<u>263,313</u>
Total expenses paid	<u>971,786</u>	<u>912,362</u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
STATEMENTS OF REVENUES, EXPENSES AND OTHER CHANGES
IN NET ASSETS - MODIFIED CASH BASIS (Continued)
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Other:		
Realized/unrealized gain on investments	<u>139,184</u>	<u>241,653</u>
Decrease in unrestricted net assets	<u>(380,292)</u>	<u>(98,064)</u>
Changes in temporarily restricted net assets:		
Foundation grants	41,493	-
Released from restriction for purpose accomplished	<u>(16,493)</u>	<u>-</u>
Increase in temporarily restricted net assets	<u>25,000</u>	<u>-</u>
Total change in net assets - modified cash basis	(355,292)	(98,064)
Net assets - modified cash basis at beginning of year	<u>1,505,611</u>	<u>1,603,675</u>
Net assets - modified cash basis at end of year	<u><u>\$ 1,150,319</u></u>	<u><u>\$ 1,505,611</u></u>

See accompanying notes.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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. Temporarily restricted net assets amounted to \$25,000 and \$0 at December 31, 2010 and 2009, respectively. There were no permanently restricted net assets at December 31, 2010 and 2009. See note 3 for a breakdown of temporarily restricted net assets.

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, 2010 and 2009

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, 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 has adopted 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. This guidance must be applied to all existing tax positions upon initial adoption. Adoption of this pronouncement had no impact on the Organization's financial statements. Tax years that remain open for examination include years ended December 31, 2007 through December 31, 2010. There are no tax penalties or interest reported in the accompanying financial statements.

Subsequent Events

The Organization evaluated subsequent events through July 18, 2011, 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 assets, liabilities and net assets 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, 2010 and 2009

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. 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, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

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

	2010			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 49,649	\$ -	\$ -	\$ 49,649
Equity securities:				
Common stock – energy	36,868	-	-	36,868
Common stock – materials	23,019	-	-	23,019
Common stock – industrials	82,042	-	-	82,042
Common stock – consumer discretionary	80,714	-	-	80,714
Common stock – consumer staples	28,580	-	-	28,580
Common stock – health care	13,061	-	-	13,061
Common stock – financials	24,389	-	-	24,389
Common stock – information technology	151,336	-	-	151,336
Common stock – foreign	33,123	-	-	33,123
Total equity securities	<u>473,132</u>	<u>-</u>	<u>-</u>	<u>473,132</u>
Mutual funds:				
Mid cap stock fund	89,156	-	-	89,156
International stock fund	73,676	-	-	73,676
Intermediate-term bond	393,266	-	-	393,266
Total mutual funds	<u>556,098</u>	<u>-</u>	<u>-</u>	<u>556,098</u>
Total assets at fair value	<u>\$ 1,078,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,078,879</u>

	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>

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Mutual funds:

Mid cap stock fund	107,239	-	-	107,239
International stock fund	95,721	-	-	95,721
Fixed income fund	<u>633,290</u>	<u>-</u>	<u>-</u>	<u>633,290</u>
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>

During 2010 and 2009, interest and dividends from investments totaled \$22,234 and \$35,387, respectively. Net gains on investments amounted to \$139,184 and \$241,653 for the years ended December 31, 2010 and 2009, respectively.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

During 2010, the Organization received \$41,493 restricted for support of the Legal Education, Advocacy, Services and Empowerment (“LEASE”) Program. At December 31, 2010, remaining funds restricted for the LEASE Program totaled \$25,000.

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 2010 and 2009, the Organization received approximately \$745,000 and \$1.82 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 2010 and 2009. Because the Organization presents its financial statements on the modified cash basis, these contributions are not reflected in the accompanying financial statements. Additionally, during 2010 and 2009, 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. A reduction in such amounts could have a significant effect on the Organization’s activities.

The Organization received \$225,000 and \$270,200, or approximately 47% of revenue, from one grantor for the year ended December 31, 2010 and 2009, respectively.

TENNESSEE JUSTICE CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

NOTE 6 – 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 \$39,178 and \$47,802 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, future minimum lease payments under this non-cancelable operating lease agreement are as follows:

For Year Ended December 31,	
2011	\$ 33,702
2012	34,721
2013	<u>8,745</u>
Total	<u>\$ 77,168</u>

NOTE 7 – CONTINGENT FEES

The Organization is seeking an award of fees and expenses under the Civil Rights Attorneys' Fees Act for its successful representation of 1.2 million TennCare enrollees in class action litigation known as *C.J. v. Emkes* (formerly known as *Grier v. Goetz*). In connection therewith, on July 9, 2010, the United States District Court for the Middle District of Tennessee awarded the Organization \$2,086,278 against the State of Tennessee in attorneys' fees for work performed in the case between November 2003 and January 2007. The state has opposed any award, and the ruling is on appeal to the Sixth Circuit Court of Appeals. 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.