

**Lone Star Justice Alliance
Financial Statements**

December 31, 2019

**Lone Star Justice Alliance
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Independent Auditors' Report

Board of Directors
Lone Star Justice Alliance

Report on the Financial Statements

We have audited the accompanying financial statements of Lone Star Justice Alliance (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors' consider 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 above present fairly, in all material respects, the financial position of Lone Star Justice Alliance as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Atchley & Associates, LLP

Austin, Texas

October 12, 2020

**Lone Star Justice Alliance
Statement of Financial Position
December 31, 2019**

ASSETS

Current assets

Cash and cash equivalents	\$	36,868
Receivables		
Grants		360,576
Donated building use		34,761
Other		22,250
Total receivables		417,587
Prepaid expenses		4,500
Total current assets		458,955

Non-Current assets

Security deposit		4,500
Fixed assets, net		9,279
Total non-current assets		13,779

Total assets \$ 472,734

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$	69,462
Line of credit		12,000
Total current liabilities		81,462

Net assets

Without donor restrictions		41,840
With donor restrictions		349,432
Total net assets		391,272

Total liabilities and net assets \$ 472,734

The accompanying notes to financial statements are an integral part of these statements.

Lone Star Justice Alliance
Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions For Time or Purpose	Total
Public support and revenue			
Contributions	\$ 59,579		\$ 59,579
Government grants		\$ 409,871	409,871
Private grants	100,000	434,525	534,525
In-kind contributions	107,749	36,574	144,323
Legal services	85,000		85,000
Other revenue	835		835
Net assets released from restrictions	551,291	(551,291)	
Total public support and revenue	<u>904,454</u>	<u>329,679</u>	<u>1,234,133</u>
Expenses			
Program services	614,536		614,536
Administrative and general	235,583		235,583
Fundraising	10,981		10,981
Total expenses	<u>861,100</u>		<u>861,100</u>
Change in net assets	43,354	329,679	373,033
Net assets - beginning of year	<u>(1,514)</u>	<u>19,753</u>	<u>18,239</u>
Net assets - end of year	<u>\$ 41,840</u>	<u>\$ 349,432</u>	<u>\$ 391,272</u>

The accompanying notes to financial statements are an integral part of these statements.

Lone Star Justice Alliance
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services	Administrative and General	Fundraising	Total
Personnel	\$ 324,028	\$ 84,332	\$ 8,409	\$ 416,769
Other professional services	119,832	9,671		129,503
Donated legal service	15,260	101,058		116,318
Occupancy	68,743	11,111	370	80,224
Travel & meals	44,648	18,347		62,995
Supplies and materials	17,430	2,931	98	20,459
Technology & software	8,903	1,743	58	10,704
Insurance	7,757	1,348	45	9,150
Other expenses	204	1,362	2,001	3,567
Bank fees and interest		3,391		3,391
Depreciation	6,186			6,186
Direct participant support	1,545			1,545
Advertising		289		289
TOTAL EXPENSES	\$ 614,536	\$ 235,583	\$ 10,981	\$ 861,100

The accompanying notes to financial statements are an integral part of these statements.

Lone Star Justice Alliance
Statement of Cash Flows
For the Year Ended December 31, 2019

OPERATING ACTIVITIES

Change in net assets	\$ 373,033
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Non-cash donation of fixed assets	(15,465)
Non-cash of future building use	(34,761)
Depreciation expense	6,186
(Increase) decrease in operating assets	
Receivables	(353,541)
Prepaid expense	(4,500)
Security deposit	(4,500)
Increase (decrease) in operating liabilities	
Accounts payable	29,479
Due to related parties	(1,947)
Accrued expenses	(1,782)
Deferred revenue	(20)
Net cash flows from operating activities	(7,818)

FINANCING ACTIVITIES

Proceeds from line of credit	112,000
Payments on line of credit	(100,000)
Net cash flows from financing activities	12,000

Net change in cash and cash equivalents 4,182

Cash and cash equivalents:

Beginning of year	32,686
End of year	\$ 36,868

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ 826
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SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES

Non-cash donation of fixed assets	\$ 15,645
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The accompanying notes to financial statements are an integral part of these statements.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE A - NATURE OF OPERATIONS

Lone Star Justice Alliance (LSJA) was established in 2017 as a non-profit organization that improves the lives of children and emerging adults in the justice system, most of whom are children of color who have found themselves in a pipeline that ignores their youth, dismisses their personal and socio-economic circumstances, and catapults them into adulthood in an unforgiving system. LSJA envisions a justice system that uses developmentally appropriate responses to behavior and treats children and emerging adults with equity and dignity to promote resilience, conserve costs, and increase public safety.

LSJA has three main program areas: (1) Transformative Justice — The Transformative Justice Model is the first-ever alternative to incarceration for emerging adults (ages 17-24) in Texas, which employs a cost-effective, research-based approach to lower recidivism and improve health. (2) Advocacy—LSJA provides legal services to enforce constitutional protections owed to children and emerging adults in the Texas justice system and for survivors of trafficking and domestic violence, whose crimes are directly tied to their own victimization. (3) Training and Technical Assistance — LSJA's experienced staff provide training and technical assistance to defenders and justice stakeholders on evidence-based practices that they may use to improve outcomes for children and emerging adults.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (GAAP).

Classification of Net Assets - Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LSJA and changes therein are classified as follows:

Net assets without donor restriction - Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restriction - Net assets subject to donor-imposed stipulations which expire when the stipulated purpose for which the resource was restricted has been fulfilled.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Net Assets Released From Restrictions - When a donor-imposed restriction is fulfilled or when a time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as released from restrictions.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand.

Contributions - Contributions received are recorded as with or without donor restrictions depending on the existence or nature of donor stipulations.

Grant Revenue - LSJA has grant agreements and contracts with funding sources that are considered conditional promises to give and cost reimbursement contracts. Revenue on these types of grant agreements and contracts are reported when the conditions specified are met. Generally, the conditions to be met are compliance with specific grant terms and delivery of specific program services. Grant agreements and contracts that award funding without any conditions, and unconditional promises to give, are reported as revenue when the funding is awarded.

Legal Services Revenue - Legal services revenue represents fee for service arrangements. Revenues are reported as the services are rendered.

In-Kind Contributions - Contributed professional services are recognized as in-kind contributions if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the contributions. Contributions of tangible assets are capitalized at fair value when received.

Grants Receivable - LSJA considers grants receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required for grants receivable.

Functional Accounting - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or that relate to a specific source of revenue are allocated directly to that program. All expenses were allocated based on time and effort.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fixed Assets - LSJA reports fixed assets at historical cost if purchased, or at fair value if donated, less accumulated depreciation. Fixed assets purchased in excess of \$5,000 are capitalized. Repairs and maintenance costs are expensed as incurred while betterments and improvements are capitalized. Provision for depreciation is recognized using primarily the straight-line method over the estimated useful lives of the depreciable assets. Upon the sale or other retirement of depreciable assets, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the statement of activities. As of December 31, 2019, all fixed assets represented leasehold improvements. Depreciation expense totaled \$6,186 for the year ended December 31, 2019. As of December 31, 2019, accumulated depreciation totaled \$6,186.

Federal Income Taxes - LSJA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. In addition, LSJA has been designated not a private foundation for income tax purposes. Accordingly, no provision for income taxes is included in these financial statements.

LSJA accounts for their uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the positions will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. As of December 31, 2019, LSJA has not recognized liabilities for uncertain tax positions or associated interest and penalties. The tax returns for the years ended December 31, 2018, and after are open to examination by federal and local authorities.

Estimates and Assumptions - The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

New Accounting Pronouncements - LSJA adopted FASB Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update assists entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions, and determining whether a contribution is conditional. LSJA did not make any significant changes to the financial statements as a result of the adoption.

LSJA also adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and additional ASUs issued to clarify the guidance in ASU 2014-09, which amends the existing accounting standards for revenue recognition. LSJA adopted the new revenue standard utilizing the full retrospective method. LSJA did not restate information reported in prior periods as the adoption of the new revenue standard did not have a material impact on previously reported amounts.

Subsequent Events - Management of LSJA has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were available to be issued. See Note L.

NOTE C - CONCENTRATIONS

Concentration of Credit Risk - Financial instruments which potentially subject LSJA to credit risk principally consist of cash held in financial institutions. LSJA deposits its cash with high credit quality financial institutions. At December 31, 2019, there were no cash balances which were not Federal Deposit Insurance Corporation (FDIC) insured or bank guaranteed.

Concentration of Donor Risk - For the year ended December 31, 2019, three organizations provided 46% of LSJA's total revenue for the year and 53% of the accounts receivable at year end.

**Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019**

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

Grants, contributions, and other receivables collectible in future periods as of December 31, 2019:

Expected to be collected in:	
Less than one year	\$ 417,587
One to five years	-
Over five years	-
Contributions receivable, gross	<u>\$ 417,587</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019, consisted of the following:

Leasehold improvements	\$ 15,465
Less accumulated depreciation	<u>(6,186)</u>
	<u>\$ 9,279</u>

NOTE F - LINE OF CREDIT

On September 11, 2019, LSJA established a \$150,000 revolving line of credit. The interest rate on the line of credit is the prime rate, which was 4.75% at December 31, 2019. The line of credit expires September 9, 2020. The outstanding balance on the line was \$12,000 at December 31, 2019. Interest expense for the year ended December 31, 2019 was \$826.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2019, net assets with donor restrictions for time or purpose consist of:

Purpose - Advocacy	\$ 144,910
Purpose - Technical Assistance and Training	10,000
Purpose - Transformative Justice	94,522
Time restricted for 2020 operations	<u>100,000</u>
	<u>\$ 349,432</u>

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS - continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. Net assets released from restriction during the year ended December 31, 2019, consisted of:

Purpose - Advocacy	\$ 70,090
Purpose - Technical Assistance and Training	-
Purpose - Transformative Justice	474,951
Time restricted for 2019 operations	6,250
	<u>\$ 551,291</u>

NOTE H - IN-KIND CONTRIBUTIONS

LSJA received in-kind contributions during the year ended December 31, 2019, as follows:

	<u>Amount</u>
Donated goods	<u>\$ 6,298</u>
Donated services	<u>138,025</u>
	<u>\$ 144,323</u>

NOTE I - DONATED BUILDING USE RECEIVABLE

In 2019, LSJA received the donated use of a building. The original donation was recorded as government grants with donor restrictions on the statement of activities and will be released from restriction and donated building use receivables on a monthly basis as the building is occupied. The building lease began on July 1, 2019, and expires on September 30, 2020. The lease requires LSJA to pay its share of operating costs which are recorded as occupancy costs on the statement of functional expenses. As of December 31, 2019, the remaining receivable was \$34,761.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE J - LEASES

LSJA leases its office space under a long-term, non-cancelable operating lease agreement. The lease was signed in November 2019, begins on January 1, 2020, and requires monthly rental payments until expiration on December 31, 2025. Following is a schedule by year of future minimum rental payments required under the operating lease agreement:

Year Ending December 31,	Amount
2020	\$ 49,500
2021	54,000
2022	54,000
2023	54,000
Thereafter	108,000
	\$ 319,500

Rental expense totaled \$20,425 for the year ended December 31, 2019.

NOTE K - AVAILABLE RESOURCES AND LIQUIDITY

The table below presents financial assets available for general expenditures within one year at December 31, 2019:

Financial assets at year-end	
Cash and cash equivalents	\$ 36,868
Grants and other receivables	382,826
Total financial assets at year-end	419,694
Less amounts not available to be used within one year:	-
Financial assets available to meet general expenditures over the next 12 months	\$ 419,694

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2019

NOTE K - AVAILABLE RESOURCES AND LIQUIDITY - continued

In addition to financial assets available to meet general expenditures over the next 12 months, LSJA operates with a balanced budget and anticipates only incurring expenses if adequate funds are available to pay for them. LSJA regularly monitors liquidity required to meet its operating needs and other contractual commitments. LSJA considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

NOTE L - SUBSEQUENT EVENT

In early 2020, the emergence of the Covid-19 Coronavirus pandemic led to significant volatility in the market LSJA serves. LSJA applied for a Paycheck Protection Program loan made available through the passing of the Cares Act and received \$142,200 in April 2020. LSJA expects a significant portion of it to be forgivable. As of the date of this report, it is uncertain how long the pandemic will continue, and to what extent, if any, it may impact the operations of LSJA.