

LONE STAR JUSTICE ALLIANCE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2021 and 2020

Lone Star Justice Alliance
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Independent Auditors' Report

Board of Directors
Lone Star Justice Alliance
Austin, Texas

Opinion

We have audited the accompanying financial statements of Lone Star Justice Alliance (a nonprofit organization), which comprise the statements of financial position as of December, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lone Star Justice Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lone Star Justice Alliance's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lone Star Justice Alliance's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lone Star Justice Alliance's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Atchley & Associates, LLP

Austin, Texas

October 6, 2022

Lone Star Justice Alliance
Statements of Financial Position
December 31, 2021 and 2020

ASSETS

	2021	2020
Current assets		
Cash and cash equivalents	\$ 75,159	\$ 121,552
Receivables		
Grants	120,020	99,922
Other	544	
Total receivables	<u>120,564</u>	<u>99,922</u>
Prepaid expenses	5,073	20,366
Total current assets	<u>200,796</u>	<u>241,840</u>
Non-Current assets		
Security deposit	4,500	4,500
Fixed assets, net	27,905	49,567
Total non-current assets	<u>32,405</u>	<u>54,067</u>
Total assets	<u><u>\$ 233,201</u></u>	<u><u>\$ 295,907</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 20,369	\$ 29,575
Line of credit	125,000	
Total current liabilities	<u>145,369</u>	<u>29,575</u>
Net assets		
Without donor restrictions	(70,428)	95,476
With donor restrictions	158,260	170,856
Total net assets	<u>87,832</u>	<u>266,332</u>
Total liabilities and net assets	<u><u>\$ 233,201</u></u>	<u><u>\$ 295,907</u></u>

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, 2021

	Without Donor Restrictions	With Donor Restrictions For Time or Purpose	Total
Public support and revenue			
Contributions	\$ 158,238		\$ 158,238
Government grants		219,877	219,877
Private grants	200,000	286,004	486,004
In-kind contributions	23,727		23,727
Other revenue	16,971		16,971
Net assets released from restrictions	518,477	(518,477)	
Total public support and revenue	<u>917,413</u>	<u>(12,596)</u>	<u>904,817</u>
Expenses			
Program services	796,818		796,818
Administrative and general	206,144		206,144
Fundraising	80,355		80,355
Total expenses	<u>1,083,317</u>		<u>1,083,317</u>
Change in net assets	(165,904)	(12,596)	(178,500)
Net assets - beginning of year	<u>95,476</u>	<u>170,856</u>	<u>266,332</u>
Net assets - end of year	<u>\$ (70,428)</u>	<u>\$ 158,260</u>	<u>\$ 87,832</u>

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, 2020

	Without Donor Restrictions	With Donor Restrictions For Time or Purpose	Total
Public support and revenue			
Contributions	\$ 71,585	\$ 51,759	\$ 123,344
Government grants	21,538	712,380	733,918
Private grants	167,080	191,500	358,580
In-kind contributions	10,273		10,273
Other revenue	3,953		3,953
Net assets released from restrictions	1,134,215	(1,134,215)	
Total public support and revenue	<u>1,408,644</u>	<u>(178,576)</u>	<u>1,230,068</u>
Expenses			
Program services	1,092,071		1,092,071
Administrative and general	218,768		218,768
Fundraising	44,169		44,169
Total expenses	<u>1,355,008</u>		<u>1,355,008</u>
Change in net assets	53,636	(178,576)	(124,940)
Net assets - beginning of year	<u>41,840</u>	<u>349,432</u>	<u>391,272</u>
Net assets - end of year	<u>\$ 95,476</u>	<u>\$ 170,856</u>	<u>\$ 266,332</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, 2021

	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 616,380	\$ 84,645	\$ 17,497	\$ 718,522
Other professional services	20,987	67,318	25,000	113,305
Occupancy	49,816	16,582	8,031	74,429
Technology & software	44,334	8,571	6,076	58,981
Direct participant support	27,248			27,248
Advertising			21,856	21,856
Depreciation	15,949	4,693	1,020	21,662
Insurance	8,198	8,618		16,816
Supplies and materials	5,142	6,310		11,452
Bank fees and interest	63	4,571		4,634
Travel & meals	3,647	3,702	875	8,224
Donated legal service	3,934	400		4,334
Other expenses	1,120	734		1,854
TOTAL EXPENSES	<u><u>\$ 796,818</u></u>	<u><u>\$ 206,144</u></u>	<u><u>\$ 80,355</u></u>	<u><u>\$ 1,083,317</u></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, 2020

	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 682,700	\$ 88,205	\$ 31,299	\$ 802,204
Other professional services	224,469	65,952		290,421
Occupancy	104,337	13,704	7,475	125,516
Technology & software	43,051	4,854	2,605	50,510
Direct participant support	3,287	1,490		4,777
Advertising		1,615	500	2,115
Depreciation	19,005	4,863		23,868
Insurance	4,996	8,383		13,379
Supplies and materials	8,128	8,233		16,361
Bank fees and interest		7,060		7,060
Travel & meals	2,073	10,525		12,598
Donated legal service				
Other expenses	25	3,884	2,290	6,199
TOTAL EXPENSES	<u><u>\$ 1,092,071</u></u>	<u><u>\$ 218,768</u></u>	<u><u>\$ 44,169</u></u>	<u><u>\$ 1,355,008</u></u>

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, 2021 and 2020

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ (178,500)	\$ (124,940)
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Non-cash donation of fixed assets		
Non-cash of future building use		
Depreciation expense	21,662	23,868
(Increase) decrease in operating assets		
Receivables	(20,642)	317,665
Prepaid expense	15,293	(15,866)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(9,206)	(39,887)
Net cash flows from operating activities	(171,393)	160,840
INVESTING ACTIVITIES		
Purchase of property and equipment		(64,156)
Net cash flows from investing activities		(64,156)
FINANCING ACTIVITIES		
Proceeds from line of credit	125,000	
Payments on line of credit		(12,000)
Net cash flows from financing activities	125,000	(12,000)
Net change in cash and cash equivalents	(46,393)	84,684
Cash and cash equivalents:		
Beginning of year	121,552	36,868
End of year	\$ 75,159	\$ 121,552
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,748	\$ 2,993

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

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

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. In 2021, LSJA also launched the JustCareers program, a Transformative Justice workforce program that focuses on connecting justice impacted individuals with employers. JustCareers provides justice-involved emerging adults access to training in a high demand career where they are paid for both classroom and job site time – called an “earn and learn” model. At the end of their training program, participants enter full-time jobs that pay wages that help them not only to survive, but to thrive. (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.

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.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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, 2021, all fixed assets represented computers and software. Depreciation expense totaled \$21,662 and \$23,868 for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, accumulated depreciation totaled \$36,251 and \$14,589, respectively.

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.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Federal Income Taxes - continued - 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, 2021 and 2020, 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.

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 F.

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2021, and early adoption is permitted. LSJA is currently evaluating the impact the standard will have on its consolidated financial statements.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

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, 2021, there were no cash balances which were not Federal Deposit Insurance Corporation (FDIC) insured or bank guaranteed.

Concentration of Donor Risk - LSJA had certain organizations whose contributions individually represented 10% or more of total contribution revenue. For the years ended December 31, 2021 and 2020, three organizations accounted for 48% and three organizations accounted for 62% of total revenue, respectively.

Concentrations of Grants Receivables - As of December 31, 2021 and 2020, one organization accounted for 83% and two organizations accounted for 95% of total grants receivable, respectively.

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

Grants, contributions, and other receivables collectible in future periods as of December 31, 2021 and 2020:

Expected to be collected in:	<u>2021</u>	<u>2020</u>
Less than one year	\$ 120,564	\$ 99,922
One to five years		
Over five years		
Receivables, gross	<u>\$ 120,564</u>	<u>\$ 99,922</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Computers	\$ 29,776	\$ 29,776
Software	34,380	34,380
Less accumulated depreciation	(36,251)	(14,589)
Property and equipment, net	<u>\$ 27,905</u>	<u>\$ 49,567</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 6.25% and 3.25% at December 31, 2021 and 2020, respectively. LSJA had an outstanding balance of \$150,000 and \$0 on the line of credit at December 31, 2021 and 2020, respectively. Interest expense for the years ended December 31, 2021 and 2020, was \$775 and \$2,993. The line of credit is guaranteed by a board member of LSJA. On May 24, 2022, the line of credit was converted to a term loan of \$150,000 with an interest rate of 3.00 percentage points over the prime rate as published by the Wall Street Journal.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2021 and 2020, net assets with donor restrictions for time or purpose consist of:

	<u>2021</u>	<u>2020</u>
Purpose - Advocacy	\$ 43,260	\$ 127,000
Purpose - Transformative Justice		28,856
Purpose - Juvenile Sentencing Project	15,000	
Time restricted for 2022 operations	100,000	15,000
	<u>\$ 158,260</u>	<u>\$ 170,856</u>

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 years ended December 31, 2021 and 2020, consisted of:

	<u>2021</u>	<u>2020</u>
Purpose - Advocacy	\$ 181,986	\$ 147,909
Purpose - Juvenile Sentencing Project	49,000	
Purpose - Fundraising strategy	30,000	
Purpose - Payroll Covid relief	146,600	142,200
Purpose - Technical Assistance and Training		10,000
Purpose - Transformative Justice	95,891	734,106
Time restricted for 2022/2021 operations	15,000	100,000
	<u>\$ 518,477</u>	<u>\$ 1,134,215</u>

NOTE H - RELATED PARTY TRANSACTIONS

In 2021 and 2020, LSJA received \$200,000 and \$10,000, respectively, from a foundation of which a board member serves as a trustee.

In 2021 and 2020, LSJA received \$33,296 and \$18,016, respectively, in donations from board members.

NOTE I - PAYCHECK PROTECTION PROGRAM

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. On April 20, 2020, LSJA entered into unsecured loan agreement in the amount of \$142,200 with a bank pursuant to the Paycheck Protection Program (PPP). LSJA has elected to account for the PPP loan as a conditional grant in accordance with FASB ASC Topic 958. LSJA applied for a second PPP loan made available through the passing of the Cares Act and received \$146,600 in March 2021. Management believes they have spent the funds in accordance with the CARES Act and have recognized the proceeds as government grants on the statement of activities. Both PPP loans have been fully forgiven as of December 31, 2021.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

NOTE J - IN-KIND CONTRIBUTIONS

LSJA received in-kind contributions during the years ended December 31, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
Donated services	<u>\$ 23,727</u>	<u>\$ 10,273</u>

NOTE K - LEASES

LSJA leases its office space under a long-term, non-cancelable operating lease agreement. The lease was signed in November 2019, began 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 54,000
2023	54,000
2024	54,000
2025	54,000
	<u>\$ 216,000</u>

Rental expenses totaled \$66,500 and \$106,795 for the years ended December 31, 2021 and 2020, respectively.

NOTE L - AVAILABLE RESOURCES AND LIQUIDITY

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

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 75,159	\$ 121,552
Grants and other receivables	120,564	382,826
Total financial assets at year-end	<u>195,723</u>	<u>504,378</u>
Less amounts not available to be used within one year:		
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 195,723</u>	<u>\$ 504,378</u>

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2021 and 2020

NOTE L - 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.