

LONE STAR JUSTICE ALLIANCE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2022 and 2021

**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, 2022 and 2021, 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, 2022 and 2021, 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 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 31, 2023

Lone Star Justice Alliance
Statements of Financial Position
December 31, 2022 and 2021

ASSETS

Current assets	2022	2021
Cash and cash equivalents	\$ 177,413	\$ 75,159
Receivables		
Grants	299,974	120,020
Other	236	544
Total receivables	<u>300,210</u>	<u>120,564</u>
Prepaid expenses	7,472	5,073
Total current assets	<u>485,095</u>	<u>200,796</u>
Non-Current assets		
Security deposit	4,500	4,500
Fixed assets, net	6,243	27,905
Right of use assets	182,260	
Total non-current assets	<u>193,003</u>	<u>32,405</u>
Total assets	<u><u>\$ 678,098</u></u>	<u><u>\$ 233,201</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 113,665	\$ 20,369
Line of credit		125,000
Long-term debt, current portion	21,775	
Operating leases, current portion	59,504	
Total current liabilities	<u>194,944</u>	<u>145,369</u>
Non-Current liabilities		
Operating leases, net of current portion	122,976	
Long-term debt, net of current portion	111,699	
Total liabilities	<u>429,619</u>	<u>145,369</u>
Net assets		
Without donor restrictions	(333,962)	(70,428)
With donor restrictions	582,441	158,260
Total net assets	<u>248,479</u>	<u>87,832</u>
Total liabilities and net assets	<u><u>\$ 678,098</u></u>	<u><u>\$ 233,201</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, 2022

	Without Donor Restrictions	With Donor Restrictions For Time or Purpose	Total
Public support and revenue			
Contributions	\$ 253,120	\$ 5,312	\$ 258,432
Government grants		105,757	105,757
Private grants	55,100	861,234	916,334
Contributed nonfinancial assets	10,000		10,000
Other revenue	248,248		248,248
Net assets released from restrictions	548,122	(548,122)	
Total public support and revenue	<u>1,114,590</u>	<u>424,181</u>	<u>1,538,771</u>
Expenses			
Program services	1,049,830		1,049,830
Administrative and general	278,086		278,086
Fundraising	50,208		50,208
Total expenses	<u>1,378,124</u>		<u>1,378,124</u>
Change in net assets	(263,534)	424,181	160,647
Net assets - beginning of year	<u>(70,428)</u>	<u>158,260</u>	<u>87,832</u>
Net assets - end of year	<u>\$ (333,962)</u>	<u>\$ 582,441</u>	<u>\$ 248,479</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
Contributed nonfinancial assets	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 Functional Expenses
For the Year Ended December 31, 2022

	Program Services	Administrative and General	Fundraising	Total
Personnel	\$ 757,953	\$ 99,862	\$ 28,871	\$ 886,686
Other professional services	4,387	137,535		141,922
Occupancy	76,711	7,904	2,188	86,803
Direct participant support	65,995			65,995
Technology & software	40,758	2,621	1,023	44,402
Advertising	33,135			33,135
Travel & meals	23,061	7,016	15	30,092
Depreciation	20,297	1,028	337	21,662
Other expenses	3,381	181	17,018	20,580
Insurance	15,712	1,163	381	17,256
Bank fees and interest		16,081		16,081
Supplies and materials	8,440	4,695	375	13,510
Donated legal service				
TOTAL EXPENSES	\$ 1,049,830	\$ 278,086	\$ 50,208	\$ 1,378,124

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

	Program Services	Administrative and General	Fundraising	Total
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
Direct participant support	27,248			27,248
Technology & software	44,334	8,571	6,076	58,981
Advertising			21,856	21,856
Travel & meals	3,647	3,702	875	8,224
Depreciation	15,949	4,693	1,020	21,662
Other expenses	1,120	734		1,854
Insurance	8,198	8,618		16,816
Bank fees and interest	63	4,571		4,634
Supplies and materials	5,142	6,310		11,452
Donated legal service	3,934	400		4,334
TOTAL EXPENSES	\$ 796,818	\$ 206,144	\$ 80,355	\$ 1,083,317

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

Lone Star Justice Alliance
Statements of Cash Flows
For the Year Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ 160,647	\$ (178,500)
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Depreciation expense	21,662	21,662
Operating lease right of use asset expense, net	220	
(Increase) decrease in operating assets		
Receivables	(179,646)	(20,642)
Prepaid expense	(2,399)	15,293
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	93,296	(9,206)
Net cash flows from operating activities	93,780	(171,393)
FINANCING ACTIVITIES		
Proceeds from long-term debt	25,000	125,000
Payments on long-term debt	(16,526)	
Net cash flows from financing activities	8,474	125,000
Net change in cash and cash equivalents	102,254	(46,393)
Cash and cash equivalents:		
Beginning of year	75,159	121,552
End of year	\$ 177,413	\$ 75,159
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 11,548	\$ 2,748

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

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

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.

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

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Contributed nonfinancial assets - Contributed professional services are recognized as contributed nonfinancial assets 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 professional services are recorded at fair market value. 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, 2022, all fixed assets represented computers and software. Depreciation expense totaled \$21,662 and \$21,662 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, accumulated depreciation totaled \$57,913 and \$36,251, 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, 2022 and 2021

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, 2022 and 2021, LSJA has not recognized liabilities for uncertain tax positions or associated interest and penalties. The tax returns for the years ended December 31, 2019, 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.

Recently Issued Accounting Pronouncements - During the year ended December 31, 2022, LSJA adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded.

During the year ended December 31, 2022, LSJA adopted FASB ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is expected to increase transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. LSJA applied the ASU during 2022 and also retrospectively to the year ended December 31, 2021.

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, 2022, 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, 2022 and 2021, two organizations accounted for 36% and three organizations accounted for 48% of total revenue, respectively.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

NOTE C - CONCENTRATIONS - continued

Concentrations of Grants Receivables - As of December 31, 2022 and 2021, three organizations accounted for 57% and one organization accounted for 50% of total current assets, respectively.

NOTE D - CONTRIBUTIONS AND GRANTS RECEIVABLE

Grants, contributions, and other receivables collectible in future periods as of December 31, 2022 and 2021:

Expected to be collected in:	<u>2022</u>	<u>2021</u>
Less than one year	\$ 300,210	\$ 120,564
One to five years		
Over five years		
Receivables, gross	<u>\$ 300,210</u>	<u>\$ 120,564</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Computers	\$ 29,776	\$ 29,776
Software	34,380	34,380
Less accumulated depreciation	(57,913)	(36,251)
Property and equipment, net	<u>\$ 6,243</u>	<u>\$ 27,905</u>

NOTE F - LONG-TERM DEBT

On September 11, 2019, LSJA established a \$150,000 revolving line of credit. The line of credit was 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. Interest expense for the years ended December 31, 2022 and 2021, was \$10,954 and \$775, respectively.

Expected future minimum principal payments consisted of the following as of December 31, 2022:

2023	\$ 21,775
2024	23,900
2025	26,798
2026	30,048
2027	30,953
	<u>\$ 133,474</u>

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2022 and 2021, net assets with donor restrictions for time or purpose consist of:

	<u>2022</u>	<u>2021</u>
Purpose - Advocacy	\$ 43,775	\$ 43,260
Purpose - Juvenile Sentencing Project	91,301	15,000
Purpose - Transformative Justice	347,365	
Time restricted for 2023/2022 operations	<u>100,000</u>	<u>100,000</u>
	<u>\$ 582,441</u>	<u>\$ 158,260</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 restrictions during the years ended December 31, 2022 and 2021, consisted of:

	<u>2022</u>	<u>2021</u>
Purpose - Advocacy	\$ 239,601	\$ 181,986
Purpose - Juvenile Sentencing Project	23,699	49,000
Purpose - Fundraising strategy		30,000
Purpose - Payroll Covid relief		146,600
Purpose - Reimagine Justice	55,208	
Purpose - Transformative Justice	184,634	95,891
Time restricted for 2022/2021 operations	<u>44,980</u>	<u>15,000</u>
	<u>\$ 548,122</u>	<u>\$ 518,477</u>

NOTE H - RELATED PARTY TRANSACTIONS

In 2022 and 2021, LSJA received \$107,004 and \$200,000 respectively, from foundations of which a board member serves as a trustee.

In 2022 and 2021, LSJA received \$50,000 and \$33,296, respectively, in donations from board members and their immediate family members.

As of December 31, 2022, donations amounting to \$820 were receivable from one board member.

NOTE I - CONTRIBUTED NONFINANCIAL ASSETS

LSJA received in-kind contributions during the years ended December 31, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Donated services	<u>\$ 10,000</u>	<u>\$ 23,727</u>

Donated services in the years ended 2022 and 2021, related to donations paid directly on behalf of LSJA to support programs and operations.

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

NOTE J - LEASES

LSJA leases its office spaces in Austin and Dallas, Texas under long-term, non-cancelable operating lease agreements.

Operating lease cost:	2022
Amortization of right of use asset	\$ 55,069
Interest on lease obligation	2,751
Short-term rentals	15,450
Total operating lease cost	<u>\$ 73,270</u>
Current lease liability	\$ 59,504
Long-term lease liability	122,976
	<u>\$ 182,480</u>
Weighted average discount rate	1.4%

Maturities of lease liabilities for the year ended December 31:

2023	\$ 59,504
2024	59,668
2025	59,836
2026	6,012
2027	2,024
	<u>\$ 187,044</u>

NOTE K - AVAILABLE RESOURCES AND LIQUIDITY

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

	2022	2021
Financial assets at year-end		
Cash and cash equivalents	\$ 177,413	\$ 75,159
Grants and other receivables	300,210	120,564
Total financial assets at year-end	<u>477,623</u>	<u>195,723</u>
Less amounts not available to be used within one year:		
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 477,623</u>	<u>\$ 195,723</u>

Lone Star Justice Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

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.