

Liberty Justice Center

Financial Report

December 31, 2020

Liberty Justice Center

Contents December 31, 2020

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Independent Auditor's Report

To the Board of Directors of
Liberty Justice Center
Chicago, Illinois

We have audited the accompanying financial statements of Liberty Justice Center (a nonprofit organization), which comprise the statement of position as of December 31, 2020, 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.

Auditor's 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 from 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 auditor's 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 auditor considers 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.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty Justice Center as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Willow CPA Group, Ltd.

Inverness, Illinois
August 25, 2021

Liberty Justice Center
Statement of Financial Position
December 31, 2020

Assets

Current assets

| | |
|------------------|---------------------|
| Cash | \$ 1,129,030 |
| Prepaid expenses | <u>22,473</u> |
| | <u>\$ 1,151,503</u> |

Liabilities and Net Assets

Current liabilities

| | |
|------------------|---------------|
| Accounts payable | \$ 69,743 |
| Accrued expenses | <u>23,632</u> |
| | <u>93,375</u> |

Net assets

| | |
|---------------------------------------|---------------------|
| Net assets without donor restrictions | 1,008,128 |
| Net assets with donor restrictions | <u>50,000</u> |
| | <u>1,058,128</u> |
| | <u>\$ 1,151,503</u> |

Liberty Justice Center
Statement of Activities
For the Year Ended December 31, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------------|---------------------------------------|------------------------------------|---------------------|
| Operating Activities: | | | |
| Support and revenue | | | |
| Contributions | \$ 2,253,583 | \$ 50,000 | \$ 2,303,583 |
| Interest income | 2,710 | — | 2,710 |
| | <u>2,256,293</u> | <u>50,000</u> | <u>2,306,293</u> |
| Net assets released from restrictions | <u>120,024</u> | <u>(120,024)</u> | <u>—</u> |
| | <u>2,376,317</u> | <u>(70,024)</u> | <u>2,306,293</u> |
| Expenses | | | |
| Program services | 1,653,936 | — | 1,653,936 |
| General and administrative | 114,565 | — | 114,565 |
| Fundraising | 408,758 | — | 408,758 |
| | <u>2,177,259</u> | <u>—</u> | <u>2,177,259</u> |
| Change in net assets from operations | 199,058 | (70,024) | 129,034 |
| Net assets | | | |
| Net assets, beginning | <u>809,070</u> | <u>120,024</u> | <u>929,094</u> |
| Net assets, ending | <u>\$ 1,008,128</u> | <u>\$ 50,000</u> | <u>\$ 1,058,128</u> |

Liberty Justice Center
Statement of Functional Expenses
For the Year Ended December 31, 2020

| | Program Services | General and Administrative | Fundraising | Total |
|--------------------------------------------------|---------------------|-------------------------------|-------------------|---------------------|
| Accounting and audit | \$ — | \$ 16,719 | \$ — | \$ 16,719 |
| Advertising and direct mail | 29,497 | — | 83,889 | 113,386 |
| Business fees and taxes | 1,634 | — | — | 1,634 |
| Computer and software | 1,878 | 2,943 | 1,332 | 6,153 |
| Conferences and events | 421 | — | 3,004 | 3,425 |
| Consulting | 118,444 | — | 68,630 | 187,074 |
| Court fees and case costs, net of reimbursements | 22,486 | — | — | 22,486 |
| Dues and subscriptions | 2,298 | 591 | 49 | 2,938 |
| Employee benefits | 94,017 | 15,181 | 16,865 | 126,063 |
| Financial management | — | 9,040 | — | 9,040 |
| Legal fees | 70,845 | — | 8,608 | 79,453 |
| Office supplies, postage and mailing | 112 | 1,090 | 5,683 | 6,885 |
| Other administrative expenses | 819 | 3,068 | — | 3,887 |
| Payroll processing | — | 14,268 | — | 14,268 |
| Payroll taxes | 83,639 | 2,195 | 12,651 | 98,485 |
| Printing | 5,629 | 407 | 148 | 6,184 |
| Production | 6,098 | — | 4,480 | 10,578 |
| Rent | — | 10,100 | — | 10,100 |
| Salaries and wages | 1,192,956 | 38,943 | 199,189 | 1,431,088 |
| Sponsorship | 5,000 | — | — | 5,000 |
| Travel | 12,897 | — | 4,202 | 17,099 |
| Utilities | — | 20 | 28 | 48 |
| Website | 5,266 | — | — | 5,266 |
| | <u>\$ 1,653,936</u> | <u>\$ 114,565</u> | <u>\$ 408,758</u> | <u>\$ 2,177,259</u> |

Liberty Justice Center
Statement of Cash Flows
For the Year Ended December 31, 2020

| | |
|-----------------------------------------------------------------------------------------------|----------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 129,034 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Changes in: | |
| Contribution receivable | 60,000 |
| Prepaid expenses | (16,563) |
| Due from other entities | 16,129 |
| Deposit | 12,000 |
| Accounts payable | 27,085 |
| Accrued expenses | 5,928 |
| Net cash provided by operating activities | <u>233,613</u> |
| Increase in cash | 233,613 |
| Cash | |
| Beginning of year | <u>895,417</u> |
| End of year | <u><u>\$ 1,129,030</u></u> |

Liberty Justice Center
Notes to the Financial Statements
December 31, 2020

Note 1. Summary of Significant Accounting Policies

Nature of Activities – Liberty Justice Center (Organization), which began operating in October 2010 and was separately incorporated in October 2011, is a nonprofit corporation organized under the laws of the State of Illinois. The Organization is a nonprofit, nonpartisan, public interest litigation center that fights to protect economic liberty, private property rights, free speech, and other fundamental rights in Illinois and beyond. First and foremost, the Organization seeks to ensure that the rights to earn a living and to start a business, which are essential to a free and prosperous society, are available not just to a politically privileged few, but to all. The Organization pursues its goals through strategic, precedent-setting litigation to revitalize constitutional restraints on government power and protections for individual rights. Revenues are derived entirely from contributions.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred. Accordingly the financial statements reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation – The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations – The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. The Organization currently has no nonoperating activities.

Property and Equipment – All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation.

Contributions – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, (that is when a stipulated item restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Liberty Justice Center
Notes to the Financial Statements
December 31, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Donated Services – Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, such as participating on the Board of Directors or other committees that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among various program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of Allocation</u> |
|-----------------------------|-----------------------------|
| Salaries and benefits | Time and effort |
| Advertising and direct mail | Benefit received |
| Consulting | Benefit received |

Income Tax Status – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except on net income derived from unrelated business activities, if any. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization’s federal and Illinois exempt organization tax returns are subject to examination by the Internal Revenue Service and state authorities, generally for three years after they were filed.

Use of Estimates – In preparing financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates

Risks and Uncertainties – In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Liberty Justice Center
Notes to the Financial Statements
December 31, 2020

Note 1. Summary of Significant Accounting Policies (Continued)

Adoption of Accounting Policy – Revenue Recognition – On January 1, 2020, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of the Organization’s revenues come from sources that are outside the scope of ASC 606.

Subsequent Events – The Organization has evaluated subsequent events for potential recognition or disclosure through August 25, 2021, the date the financial statements were available to be issued.

Note 2. Availability and Liquidity

The following represents the Organization’s financial assets at December 31, 2020:

| | |
|-------------------------------------------------------------------------------------|----------------------------|
| Financial assets at year end: | |
| Cash | <u>\$ 1,129,030</u> |
| Total financial assets | <u>1,129,030</u> |
| Less amounts not available to be used within one year: | <u>—</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u><u>\$ 1,129,030</u></u> |

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$550,000) and budgets a cash surplus of 10% of revenue to build long term reserves. The Organization maintains savings and brokerage accounts to invest excess funds in highly liquid interest-generating accounts. The Organization has no formal borrowing facilities available to it and has no material assets other than contributions receivable that can be leveraged in a short-term liquidity event.

Note 3. Concentrations

Cash – The Organization maintains its cash balances at two financial institutions in Illinois. The balances are insured up to the appropriate Federal Deposit Insurance Corporation limits. At times, the balances in the account may exceed the insured limits. Management believes the Organization is not exposed to any significant credit risk.

Contributions – During 2020, three donors contributed \$1,550,000 (\$1,000,000, \$300,000 and \$250,000), or 68% of the total contributions to the Organization.

Liberty Justice Center
Notes to the Financial Statements
December 31, 2020

Note 4. Net Assets With Donor Restrictions

Net assets with donor restrictions (consisting of cash) of \$50,000 as of December 31, 2020 are available for national casework.

Note 5. Related Party Transactions

The Organization has an agreement with Bearing Tree, Incorporated (BTI) whereby BTI employs all of the Organization's staff. The Organization reimburses the actual cost of the salaries, payroll taxes and employee benefits and also pays a payroll processing service fee. For the year ended December 31, 2020, the amount reimbursed was approximately \$1,629,000. BTI is a wholly-owned subsidiary of GAA. The Chairman of GAA is was the Chairman of the Organization until December, 2020.