

VERA INSTITUTE OF JUSTICE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020

VERA INSTITUTE OF JUSTICE, INC.

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Vera Institute of Justice, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Vera Institute of Justice, Inc., which comprise the statement of financial position at June 30, 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.

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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vera Institute of Justice, Inc. at June 30, 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 of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Vera Institute of Justice, Inc. adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08. Our opinion is not modified with respect to this matter.

Grassi & Co., CPAs, P.C.
GRASSI & CO., CPAs, P.C.

New York, New York
December 23, 2020

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Cash and cash equivalents	\$ 32,299,219
Investments	43,348,092
Grants and contracts receivable, net	27,849,135
Contributions receivable, net	25,074,594
Prepaid expenses and other assets	912,582
Fixed assets, net	<u>5,442,071</u>
 TOTAL ASSETS	 <u>\$ 134,925,693</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	
Accounts payable and accrued expenses	\$ 26,832,832
Accrued salaries and related benefits payable	2,390,434
Deferred rent	911,781
Advances from government agencies	10,000
Loans payable	<u>7,493,100</u>
 TOTAL LIABILITIES	 <u>37,638,147</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Without donor restrictions:	
Operating	28,930,775
Board designated	<u>32,500,560</u>
Total without donor restrictions	<u>61,431,335</u>
 With donor restrictions:	
Purpose restricted	34,606,211
Endowment	<u>1,250,000</u>
Total with donor restrictions	<u>35,856,211</u>
 TOTAL NET ASSETS	 <u>97,287,546</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 134,925,693</u>

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	With Donor Restrictions				Total
	Without Donor Restrictions	Purpose Restricted	Endowment	Total	
Operating revenue and other support:					
Government grants, contracts and fees	\$ 137,013,071	\$ -	\$ -	\$ -	\$ 137,013,071
Contributions	5,849,388	29,435,256	333,000	29,768,256	35,617,644
Special events	1,660,153	-	-	-	1,660,153
Miscellaneous revenue	131,623	-	-	-	131,623
Net assets released from restrictions	23,602,984	(23,602,984)	-	(23,602,984)	-
Total operating revenue and other support	168,257,219	5,832,272	333,000	6,165,272	174,422,491
Operating expenses:					
Program Services	145,142,832	-	-	-	145,142,832
Supporting Services:					
Management and general	9,886,186	-	-	-	9,886,186
Fundraising	1,393,716	-	-	-	1,393,716
Total operating expenses	156,422,734	-	-	-	156,422,734
Excess of operating revenue and other support over operating expenses	11,834,485	5,832,272	333,000	6,165,272	17,999,757
Investment income, net	1,036,605	-	-	-	1,036,605
Change in net assets	12,871,090	5,832,272	333,000	6,165,272	19,036,362
Net assets, beginning of year	48,560,245	28,773,939	917,000	29,690,939	78,251,184
Net assets, end of year	\$ 61,431,335	\$ 34,606,211	\$ 1,250,000	\$ 35,856,211	\$ 97,287,546

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Supporting Services			
	Demonstration Projects	Centers and Programs	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses:							
Salaries	\$ 1,672,360	\$ 16,533,756	\$ 18,206,116	\$ 4,680,530	\$ 681,566	\$ 5,362,096	\$ 23,568,212
Fringe benefits	564,461	4,671,338	5,235,799	1,689,353	144,352	1,833,705	7,069,504
Total personnel expenses	<u>2,236,821</u>	<u>21,205,094</u>	<u>23,441,915</u>	<u>6,369,883</u>	<u>825,918</u>	<u>7,195,801</u>	<u>30,637,716</u>
Subcontracts and pass-through funding	-	109,745,880	109,745,880	8,350	-	8,350	109,754,230
Consultants	81,923	7,798,788	7,880,711	-	199,791	199,791	8,080,502
Professional fees	395	189,833	190,228	328,383	2,387	330,770	520,998
Occupancy	2,438	635,868	638,306	846,050	-	846,050	1,484,356
Equipment expense and rentals	16,040	46,564	62,604	298,570	-	298,570	361,174
Office expenses	24,906	288,698	313,604	550,595	52,329	602,924	916,528
Insurance	15,419	16	15,435	178,246	-	178,246	193,681
Travel	10,139	2,454,114	2,464,253	505,570	269,424	774,994	3,239,247
Depreciation and amortization	-	-	-	713,772	-	713,772	713,772
Miscellaneous expense	3,937	385,959	389,896	86,767	43,867	130,634	520,530
Total expenses	<u>\$ 2,392,018</u>	<u>\$ 142,750,814</u>	<u>\$ 145,142,832</u>	<u>\$ 9,886,186</u>	<u>\$ 1,393,716</u>	<u>\$ 11,279,902</u>	<u>\$ 156,422,734</u>

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

VERA INSTITUTE OF JUSTICE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 19,036,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	713,772
Bad debt expense	7,500
Deferred rent	105,812
Net realized and unrealized gains on investments	(73,621)
Endowment contributions	(333,000)
Changes in Assets (Increase) Decrease:	
Grants and contracts receivable	(6,173,230)
Contributions receivable	(7,011,519)
Prepaid expenses and other assets	179,980
Changes in Liabilities Increase (Decrease):	
Accounts payable and accrued expenses	5,699,512
Accrued salaries and related benefits payable	1,258,959
Advances from government agencies	(10,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,400,527</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(13,544,239)
Proceeds from sale of investments	2,963,084
Purchase of fixed assets	(4,321,463)
NET CASH USED IN INVESTING ACTIVITIES	<u>(14,902,618)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loans payable	7,493,100
Endowment contributions	333,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,826,100</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,324,009
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>25,975,210</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 32,299,219</u></u>

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

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Nature of Operations

Vera Institute of Justice, Inc. ("Vera") was organized under the Not-for-Profit Corporation Law of the State of New York and is qualified as a public charity under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Vera is therefore exempt from federal income tax under Section 501(a) of the Code.

Vera's mission is to drive change and urgently build and improve justice systems that ensure fairness, promote safety, and strengthen communities. Vera works with others who share its vision to tackle the most pressing injustices of our day - from the causes and consequences of mass incarceration, racial disparities, and the loss of public trust in law enforcement, to the unmet needs of the vulnerable, the marginalized, and those harmed by crime and violence. Vera's primary source of funding is government grants and contributions.

Note 2 - Summary of Significant Accounting Policies

Changes in Accounting Principles

ASU No. 2018-08

Effective July 1, 2019, Vera adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), on a modified prospective basis. This ASU provides for guidance to assist Vera in evaluating the transfer of assets and the nature of the related transactions. Vera considers whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The presence of both indicates that the recipient is not entitled to the transferred assets or a future transfer of assets until it has overcome any barriers in the agreement.

The adoption of this ASU resulted in changes in the disclosures in the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Cash and Cash Equivalents

Vera considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Vera places its temporary cash investments with high credit quality financial institutions.

Investments

Investments are stated at the readily determinable fair value in accordance with the Not-for-Profit Entities topic of the FASB Accounting Standards Codification ("ASC"). All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs when little or no market data is available. These valuations require significant judgment.

At June 30, 2020, the cost basis of Vera's financial instruments, including cash and cash equivalents, grants and contracts receivable, contributions receivable, accounts payable and accrued expenses, and advances from government agencies, approximated fair value due to the short maturity of these instruments.

Refer to Note 4 - Fair Value Measurements for assets measured at fair value.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Allowance for Doubtful Accounts

Vera determines whether an allowance for uncollectable accounts should be provided for grants and contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Grants and contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. At June 30, 2020, there is no allowance for doubtful accounts.

Fixed Assets

Fixed assets are stated at cost. The costs of additions and betterments are capitalized when they exceed \$5,000 and have a useful life of over one year. Expenditures for repairs and maintenance are expensed in the period incurred. When items are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation of furniture and equipment is provided utilizing the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

Useful lives are as follows:

Computer equipment	5 years
Furniture	7 years
Office equipment	5 years
Leasehold improvements	15 years

Net Assets

Net Assets without donor restrictions include funds having no restrictions as to use or purpose imposed by donors. Net assets with donor restrictions - board designated represent funds designated by the Board of Trustees as a special allocation for enhancing specific program activities. Net assets with donor restrictions - purpose restricted are those net assets that are restricted by the donors for specific purposes. Net assets with donor restrictions - endowment funds are those net assets whose principal may not be expended. The donors may or may not restrict the use of investment income.

VERA INSTITUTE OF JUSTICE, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2020

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Government Grant and Contracts Revenue, Receivables and Advances from Government Agencies

Government grants and contracts revenue and receivables are recorded when the underlying work is performed as these contracts are structured as exchange transactions and not as donor restricted or without donor restricted grants. To the extent amounts received exceed amounts spent, Vera establishes advances from government funders. As the conditions are met, Vera simultaneously releases the government contracts and they are reflected as net assets without donor restrictions. For deliverables and fixed-price contracts, revenue is recorded when the deliverable is met or on the established time interval as described in the contract, respectively. Contract activities and outlays are subject to audit and acceptance by the funding agency and, as a result of such audit, adjustments could be required.

Contributions

Contributions are provided to Vera either with or without donor restrictions. Revenues and net assets are separately reported to reflect the nature of those gifts - with or without donor restrictions. The value recorded for each contribution or grant is recognized as follows:

<u>Nature of the Gift</u>	<u>Value Recognized</u>
<i>Conditional gifts and grants, with or without restrictions</i>	
Gifts and grants that depend on Vera overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts and grants, with or without restrictions</i>	
Received at date of gift - cash and other assets	Fair value
Received at date of gift - property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions (cont'd.)

Contributions received and unconditional promises to give are recorded as public support at fair value in the period received and are considered to be net assets without donor restrictions unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Vera records contributions as donor restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions.

Functional Reporting

The statement of functional expenses report certain categories of expenses that are attributable to one or more program functions within Vera. Those expenses include salaries and fringe benefits, subcontractors and pass-through funding, rent and depreciation and amortization. Salaries and fringe benefits are allocated across programs based on the proportional share of the employee's full-time equivalent charged to that program or a prescribed time study methodology. Subcontracts and pass-through funding is charged directly to the programs that benefit from the services. Rent and depreciation and amortization are allocated based on usable square footage.

Operating Leases

The Organization has leases with unrelated third parties with certain escalation clauses that require normalization of the rent expense over the life of the leases. As a result, operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense.

Measure of Operations

Changes in net assets from operations include all revenues and expenses for the period except for investment income or loss.

Accounting for Uncertainty in Income Taxes

Vera applies the provisions pertaining to uncertain tax provisions of FASB ASC Topic 740, *Income Taxes*, and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Vera is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Vera believes it is no longer subject to income tax examinations prior to 2017.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") 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 U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede FASB ASC Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022, based on the decision in ASU No. 2020-05 to defer the implementation dates. Early application is permitted.

ASU No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic entities, the amendments of ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020, based on the decision in ASU No. 2020-05 to defer the implementation dates by another year. Early application is permitted under certain circumstances.

Vera has not yet determined if these ASUs will have a material effect on its financial statements.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 - Concentration of Credit Risk

Vera maintains cash balances in several financial institution, which balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) for up to \$250,000 per institution. From time to time, and at June 30, 2020, Vera’s balances exceeded these limits.

Note 4 - Investments and Investment Income

Vera measures its investment at fair value. Fair value is an exit price, representing the amount that would be received on the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, a three-tier fair value hierarchy is used which prioritizes the inputs in the valuation methodologies in measuring fair value.

The methodology for measuring fair value specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect the Vera’s own assumptions of market participant valuation (unobservable inputs).

Investments in mutual funds are valued using market prices in active markets. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from quoted prices for identical assets in inactive markets.

The following table presents Vera’s assets that are measured on a recurring basis at June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity and fixed income mutual funds:			
Domestic equity	\$ 13,273,765	\$ -	\$ 13,273,765
International equity	3,526,409	-	3,526,409
Emerging markets	889,790	-	889,790
Credit sensitive/liquid strategies fixed income	7,396,906	-	7,396,906
Fixed income bonds	-	18,261,222	18,261,222
	<u>\$ 25,086,870</u>	<u>\$ 18,261,222</u>	<u>\$ 43,348,092</u>

For the year ended June 30, 2020, investment income, net consists of:

Dividend and interest income	1,159,819
Realized and unrealized gains on investments	73,621
Investment advisory expense	<u>(196,835)</u>
	<u>\$ 1,036,605</u>

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 5 - Contributions Receivable

Contributions receivable consist of the following:

Receivable in less than one year	\$ 12,596,724
Receivable in one to five years	<u>12,477,870</u>
	<u>\$ 25,074,594</u>

Note 6 - Fixed Assets

Fixed asset, net consist of the following:

Leasehold improvements	\$ 6,512,885
Computer equipment	830,762
Furniture	643,218
Office equipment	<u>171,459</u>
	8,158,324
Less: Accumulated depreciation and amortization	<u>2,716,253</u>
	<u>\$ 5,442,071</u>

Depreciation and amortization expense related to fixed assets totaled \$713,772 for the year ended June 30, 2020.

Note 7 - Endowments

Vera maintains donor-restricted and board designated endowment funds that are established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Vera classifies as net assets with donor restrictions - endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In addition, Vera classifies any unspent accumulated earnings as part of net assets with donor restrictions - endowment.

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 7 - Endowments (cont'd.)

Vera considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of Vera and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Vera, (7) Vera's investment policies, and (8) when appropriate, alternatives to spending from the donor-restricted endowment funds and the possible effects of those alternatives on Vera.

The Endowment Fund (the "Fund") was established in fiscal year 1987 as a board designated fund to function as and to achieve the same general purposes as a permanent endowment. Policy guidelines established by Vera's Board of Trustees incorporate this requirement and provide that the Fund was to be known as the "Endowment Fund."

The Fund continues to be accounted for in a separate, segregated fund and the Finance and Investment Committee of Vera's Board of Trustees continues to exercise investment decisions and establishes and maintains investment guidelines and strategies.

Vera's investment and spending policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total Endowment Fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. During 2020, the Board of Trustees voted to not make any appropriations.

Endowment net asset composition by type of fund at June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,250,000	\$ 1,250,000
Board-designated endowment funds	32,500,560	-	32,500,560
Total	<u>\$ 32,500,560</u>	<u>\$ 1,250,000</u>	<u>\$ 33,750,560</u>

VERA INSTITUTE OF JUSTICE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 7 - Endowments (cont'd.)

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Board Designated Endowment	Donor Restricted Endowment	Total
Endowment net assets, June 30, 2019	\$ 26,761,719	\$ 917,000	\$ 27,678,719
Contributions	-	333,000	333,000
Internal board designation	5,300,000	-	5,300,000
Investment income, net	438,841	-	438,841
Endowment net assets, June 30, 2020	<u>\$ 32,500,560</u>	<u>\$ 1,250,000</u>	<u>\$ 33,750,560</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the New York Prudent Management of Institutional Funds Act requires Vera to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2020.

Note 8 - Loans Payable

Line of Credit

Vera entered into a revolving line of credit agreement with a financial institution, which provides for borrowings up to \$2,500,000. This line of credit is secured by a blanket first lien on substantially all the assets of Vera and is subject to restrictive covenants. Interest is charged at the greater of the bank's prime rate (3.25% as of June 30, 2020) less 0.75%, or two hundred basis points in excess of a rate of interest determined by the bank in accordance with its customary procedures less 0.75%. Interest expense incurred for the year ended June 30, 2020 was \$7,500. Vera had an outstanding balance of \$2,000,000 due under the line of credit at June 30, 2020.

Paycheck Protection Program Loan

On May 5, 2020, Vera received a \$5,493,100 loan from a financial institution under the Paycheck Protection Program established by the U.S. Small Business Administration. The loan has an initial deferment period wherein no payments are due for six months from the date of disbursement. Interest will continue to accrue during this deferment period. After the deferment period, the loan is payable in equal monthly installments of \$305,172, including principal and interest at a fixed rate of 1.00%, through the maturity date of May 5, 2022. This loan was fully repaid in July 2020.

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Note 9 - Net Assets with Donor Restrictions and Net Assets Released from Restrictions

At June 30, 2020, net assets with donor restrictions are available for the following purposes:

Demonstration Projects	\$ 276,269
Centers and programs	26,456,299
General and administrative	60,392
Time restricted contributions	7,813,251
	<u>\$ 34,606,211</u>

Net assets with donor restrictions were released from restrictions for the year ended June 30, 2020 by incurring expenses satisfying the following:

Demonstration Projects	\$ 217,270
Centers and programs	18,461,428
General and administrative	174,286
Time restricted contributions	4,750,000
	<u>\$ 23,602,984</u>

Note 10 - Employee Benefit Plans

Vera maintains a defined contribution group pension plan whereby contributions are made in an amount equal to 5% of annual compensation for all eligible employees. Employees are eligible to participate in the plan if they have completed one year of service and contribute at least 3% of their annual salary to the Vera Tax Sheltered Annuity Plan ("Annuity Plan"). The Annuity Plan is a defined contribution tax sheltered annuity plan that allows employees to defer a portion of their salaries for tax purposes through payroll deductions. Contributions to the pension plan for the year ended June 30, 2020 amounted to \$719,941.

Note 11 - Operating Leases

Vera currently has various cancellable and noncancellable property lease agreements in connection with its programs which expire at various dates through September 2034. The property leases are subject to real estate tax escalations. Rental expense for Vera under all operating leases for the year ended June 30, 2020 was \$1,326,769. The minimum annual future rental commitments are as follows:

<u>Years Ending June 30:</u>	
2021	\$ 1,255,291
2022	1,282,396
2023	1,304,798
2024	1,302,586
2025	1,447,980
Thereafter	16,935,558
	<u>\$ 23,528,609</u>

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Note 12 - Funds Held on Behalf of Others

Through the Guardianship Project, Vera acts as the court-appointed guardian for designated individuals. The Guardianship Project provides guardianship services for older adults and people with disabilities in New York City who have been determined by a judge to be unable to care for themselves. Vera's administration of these assets is limited as dictated in the Order and Judgment, which limits the scope of Vera's authority to handle financial tasks. At times during the year, cash balances for the Guardianship Project, which are in the designated individual's and Vera's name, may exceed the limits of FDIC insurance coverage. These amounts are not included in the accompanying financial statements.

The approximate value of the assets at June 30, 2020 is as follows:

Cash	\$ 8,200,000
Securities	3,600,000
Real property	<u>23,900,000</u>
	<u>\$ 35,700,000</u>

Note 13 - Available Resources and Liquidity

Vera regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Vera has various sources of liquidity at its disposal, including cash and cash equivalents, investments and a line of credit. See Note 8 for information about Vera's line of credit.

The following reflects Vera's financial assets as of June 30, 2020, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

Cash and cash equivalents	\$ 32,299,219
Investments	43,348,092
Grants and contracts receivable, net	27,849,135
Contributions receivable, net	<u>25,074,594</u>
Total financial assets	128,571,040
Less: Donor imposed restrictions or internal designations	
Receivable scheduled to be collected in more than one year	(12,477,870)
Board designated endowment	(32,500,560)
Purpose restricted net assets	(34,606,211)
Donor restricted endowment	<u>(1,250,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 47,736,399</u>

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Note 14 - Commitments and Contingencies

Vera has contracted with various funding agencies to perform services and receives reimbursements from federal, state and city governments. Reimbursements received under these contracts and payments are subject to audit by the federal, state and city governments. Upon audit, if discrepancies are discovered, Vera could be held responsible for refunding the amounts in question. Vera records such adjustments when the final audit amount is determined. At June 30, 2020, there were no material obligations as a result of such audits, and Vera's management believes that unaudited activities will not result in any material obligations. In the opinion of Vera's management, any liabilities that might be incurred would not have a material effect on Vera's financial position or results of operations.

As a result of the spread of COVID-19 coronavirus, economic uncertainties have risen which are likely to negatively impact the recognition of program services revenue, contributions and special events, and the collectability of receivables. Other financial impact could occur, though such potential impact is unknown at this time.

Vera is involved in litigation arising in the normal course of business. Management estimates that such matters will be resolved without a material adverse effect on Vera's future financial position, liquidity and results from operations.

Note 15 - Subsequent Events

Vera has evaluated all events or transactions that occurred after June 30, 2020 through December 23, 2020, which is the date that these financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure, except as noted below:

In July 2020, Vera voluntarily returned the entire loan received under the Paycheck Protection Program (see Note 8).

On July 2, 2020, Blue Meridian Partners, Inc., through its Justice and Mobility Fund, made a general support investment of \$25,000,000 in Vera to support its three-year strategic plan. Vera recorded the initial payment of \$10,000,000 on July 9, 2020 as contribution revenue, and in accordance with its revenue recognition policy, will record the remaining revenue when subsequent payments are received and all milestones are achieved. Subsequent payments will be made in accordance with the schedule as noted below:

September 2021	\$ 8,000,000
September 2022	\$ 7,000,000

On November 1, 2020, Project Guardianship, a Vera demonstration project (see Note 12 - Funds Held on Behalf of Others), was spun off as an independent entity. Project Guardianship is a tax-exempt not-for-profit organization, with Vera being its sole member. It has its own employees, Board of Trustees and audit.