



FINANCIAL STATEMENTS

DECEMBER 31, 2019

THE SENTENCING PROJECT

**TABLE OF CONTENTS
DECEMBER 31, 2019**

	<u>Pages</u>
Independent Auditors' Report	3
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-13

Independent Auditors' Report

To the Board of Directors
The Sentencing Project

We have audited the accompanying financial statements of The Sentencing Project (a nonprofit organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for 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 The Sentencing Project as of December 31, 2019, 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.

Councilor, Buchanan & Mitchell, P.C.

Washington, D.C.
May 22, 2020

Certified Public Accountants

THE SENTENCING PROJECT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

Assets

Current Assets

Cash and Cash Equivalents	\$ 1,277,652
Investments	1,515,216
Accounts Receivable	4,631
Contributions Receivable	183,942
Prepaid Expenses	23,419
	3,004,860

Property and Equipment, at Cost

Furniture and Equipment	4,562
Software	130,831
	135,393
Total Property and Equipment	135,393
Less Accumulated Depreciation	(107,212)
	28,181

Other Assets

Security Deposit	8,747
	8,747

Total Assets \$ 3,041,788

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 15,876
Accrued Expenses	17,475
	33,351

Net Assets

Net Assets Without Donor Restrictions	
Board Designated	500,000
Undesignated	2,324,495
	2,824,495

Net Assets With Donor Restrictions	183,942
------------------------------------	---------

Total Net Assets	3,008,437
------------------	-----------

Total Liabilities and Net Assets \$ 3,041,788

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Contributions	\$ 1,296,544	\$ 183,942	\$ 1,480,486
Honoraria	13,281	-	13,281
Consulting Income	16,800	-	16,800
Other Income	11,822	-	11,822
Investment Income	75,818	-	75,818
Net Assets Released from Restrictions			
Satisfaction of Program and Time Accomplishment	474,000	(474,000)	-
Total Revenues	1,888,265	(290,058)	1,598,207
Program and Supporting Services			
Expenses			
Program Services			
Policy Reform Advocacy	300,177	-	300,177
Public Education	624,146	-	624,146
Race and Justice	298,502	-	298,502
Felony Disenfranchisement Reform	52,816	-	52,816
Total Program Services	1,275,641	-	1,275,641
Supporting Services			
Fundraising	121,454	-	121,454
Management and General	152,473	-	152,473
Total Supporting Services	273,927	-	273,927
Total Expenses	1,549,568	-	1,549,568
Change in Net Assets	338,697	(290,058)	48,639
Net Assets, Beginning of Year	2,485,798	474,000	2,959,798
Net Assets, End of Year	\$ 2,824,495	\$ 183,942	\$ 3,008,437

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Policy Reform Advocacy	Public Education	Race and Justice	Felony Disenfranchisement Reform		Fundraising	Management and General		
Salaries and Benefits	\$ 268,620	\$ 480,173	\$ 256,975	\$ 46,667	\$ 1,052,435	\$ 10,703	\$ 42,620	\$ 53,323	\$ 1,105,758
Consultants	100	3,040	-	-	3,140	66,143	43,821	109,964	113,104
Meetings	193	344	184	33	754	8	254	262	1,016
Printing	1,038	7,522	993	180	9,733	12,866	1,369	14,235	23,968
Mail House Services	-	1,860	-	-	1,860	14,735	-	14,735	16,595
Travel	2,039	25,872	8,662	1,039	37,612	71	2,334	2,405	40,017
Accounting	-	-	-	-	-	-	24,480	24,480	24,480
Postage and Delivery	640	2,869	612	111	4,232	10,288	842	11,130	15,362
Occupancy	20,506	36,659	19,619	3,563	80,347	817	27,056	27,873	108,220
Office Supplies	785	1,695	750	136	3,366	31	1,034	1,065	4,431
Telephone and Fax	960	1,717	919	167	3,763	38	1,267	1,305	5,068
Office Equipment and Maintenance	57	102	54	10	223	2	75	77	300
Depreciation	3,726	6,663	3,566	648	14,603	149	4,916	5,065	19,668
Insurance	664	1,185	634	115	2,598	26	875	901	3,499
Bank Service Charges	822	1,470	787	143	3,222	38	1,080	1,118	4,340
Dues/Subscriptions/Registration Fees	27	29,255	25	4	29,311	1	34	35	29,346
Website	-	23,720	4,722	-	28,442	5,538	-	5,538	33,980
Tax Licenses and Permits	-	-	-	-	-	-	416	416	416
Total Expenses	\$ 300,177	\$ 624,146	\$ 298,502	\$ 52,816	\$ 1,275,641	\$ 121,454	\$ 152,473	\$ 273,927	\$ 1,549,568

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash Flows from Operating Activities	
Change in Net Assets	\$ 48,639
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	19,668
Realized and Unrealized Gain on Investments	(30,972)
Change in Assets and Liabilities	
Increase in Accounts Receivable	(4,631)
Increase in Contributions Receivable	377,130
Increase in Prepaid Expenses	(12,445)
Decrease in Accounts Payable	4,108
Decrease in Accrued Expenses	<u>(4,240)</u>
Net Cash Provided by Operating Activities	397,257
Cash Flows from Investing Activities	
Purchases of Furniture and Equipment	(11,699)
Proceeds from Sale of Investments	<u>50,844</u>
Net Cash Provided by Investing Activities	<u>39,145</u>
Net Increase in Cash and Cash Equivalents	436,402
Cash and Cash Equivalents, Beginning of the Year	<u>841,250</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,277,652</u></u>

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Sentencing Project (the Organization) is a non-profit organization incorporated in the District of Columbia on July 1, 1986. The Organization engages in research and public education on criminal justice policy issues, advocates for policy reform toward a more fair and effective justice system, and conducts outreach to the media to influence the public debate on crime and justice.

The Organization's Program Areas are:

Policy Reform Advocacy - The Organization advocates at federal and state levels for reducing the use of incarceration to address crime, decreasing the number of low-level drug offenders in prison in favor of more community-based solutions, reforming sentencing policies that produce unwarranted racial disparities, and reducing the collateral consequences of a felony conviction.

Public Education - The Organization monitors the criminal justice system and produces research and policy analyses to educate the public about the impact of criminal justice policies, and advocates for reform of unfair, excessive or racially disparate policies. Areas of activity include sentencing and drug policy, alternatives to incarceration, and the impact of incarceration on families and communities.

Race and Justice - The Organization engages in research, public education, and technical assistance to enhance fairness in the justice system and to reduce racial disparities. The Organization conducts trainings and produces analyses for policy makers and practitioners on strategies to meet the goals of both public safety and racial justice.

Felony Disenfranchisement Reform - The Organization is a leader in national efforts to educate the public on the need to reform policies and practices that prohibit or limit voting by people with felony convictions. The Organization disseminates research and analysis on the issue to a broad national constituency.

Method of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents

The Organization considers all short-term investments with original maturities of three months or less to be cash equivalents included in cash.

Accounts and Contributions Receivable

Accounts and contributions receivable are recorded at the amount the Organization expects to collect on balances outstanding at the end of the year. Management closely monitors receivables and charges off to expense any balances that are determined to be uncollectible. As of December 31, 2019, the Organization's allowance for doubtful accounts was \$-0-. Bad debt expense for the year ended December 31, 2019, was \$-0-.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair market value based on quotations received from national security exchanges.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is calculated on a straight-line basis over a three-year or five-year estimated useful life. Leasehold improvements are amortized over the shorter of the useful life or lease term. The Organization capitalizes property and equipment purchases of \$1,000 or more.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the 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. Restricted contributions for which the restrictions are met in the year received are considered contributions without donor restrictions for financial statement purposes.

Other Revenue

Other revenue, consisting of honoraria, consulting, and other income, is recognized when earned. Amounts received in advance are recorded as deferred revenue. There was no deferred revenue at December 31, 2019.

Income Taxes

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code (the Code) from the payment of taxes on income other than unrelated business income. No provision for income tax is required for the year ended December 31, 2019, as the Organization had no net unrelated business income. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include, or reflect, any uncertain tax positions. The Organization’s IRS Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by taxing authorities generally for three years after filing.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

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 most operating costs that support various programs and functions. The basis of the allocations is direct salary costs which have been allocated to program and supporting functions based on documentation of employee time and effort.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

During the year ended December 31, 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides additional guidance in (1) evaluating whether transactions should be accounted for as contributions (within the scope of ASC 958) or as exchange (reciprocal) transactions (subject to ASC 606); and (2) distinguishing between conditional and unconditional contributions. Management believes that the adoption of this ASU enhances the comparability of financial information among not-for-profit entities. This change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The impact of the adoption was not material to the financial statements.

During the year ended December 31, 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. Management believes that the adoption of this standard provides better consistency and comparability across non-profit and for-profit entities. The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in U.S. GAAP. Analysis of the various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue; however; the presentation and disclosure of revenue has been enhanced.

3. CONCENTRATIONS

The Organization's demand deposits with financial institutions, at certain times, exceeded federally insured limits. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk.

As of December 31, 2019, approximately 27% of contributions receivable consisted of an amount due from one donor.

THE SENTENCING PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

4. INVESTMENTS

Investment income is comprised of the following at December 31, 2019:

Interest and Dividends	\$ 51,443
Realized and Unrealized Gain	<u>30,093</u>
Total Interest, Dividends, Realized and Unrealized Gains	81,536
Less Investment Fees	<u>(5,718)</u>
Total Investment Income	<u><u>\$ 75,818</u></u>

5. FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. In accordance with FASB ASC 820-10, fair value is defined as the price that the Organization would receive to sell an investment or to pay to transfer a liability in an orderly transaction with an independent counter-party in the principal market; or in the absence of a principal market, the most advantageous market for the investment or liability. The FASB ASC 820-10 hierarchy consists of three broad levels.

Level 1 - inputs consist of unadjusted quoted prices in active markets for identical assets to which the Organization had access to at the measurement date and have the highest priority.

Level 2 - inputs consist of observable inputs other than quoted prices for identical assets.

Level 3 - inputs are unobservable inputs for the asset and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

The fair value of mutual funds and money market accounts are based on quoted prices in active markets provided by the custodian. The Organization does not have any Level 2 or 3 inputs.

	Fair Value	Level 1	Level 2	Level 3
Balances as of December 31, 2019				
Mutual Funds	<u>\$ 1,515,216</u>	<u>\$ 1,515,216</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization invests in professionally managed portfolios that contain mutual funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in market conditions in the near term could materially affect investment balances and the amounts reported in the financial statements.

THE SENTENCING PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

6. OPERATING LEASE

The Organization leases office space under an operating lease agreement that was to expire on June 30, 2018. In April 2017, the Organization extended the lease through June 30, 2024. Future minimum lease payments required under the lease agreement are:

For the Years Ending December 31,

2020	\$ 123,036
2021	127,350
2022	131,808
2023	136,422
2024	<u>69,384</u>
Total	<u>\$ 588,000</u>

Rent expense for the year ended December 31, 2019, was \$108,220.

7. BOARD DESIGNATED OPERATING NET ASSETS

The Board of Directors has designated a portion of the Organization's net assets without donor restrictions as an operating reserve fund (the Reserve) to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization. The Reserve is funded with surplus unrestricted funds and is commingled with the Organization's general cash and investment accounts. The Board of Directors' investment objectives for the Reserve are to create financial stability by preservation of capital that earns a reasonable rate of return. The balance of the Board designated operating net assets was \$500,000 at December 31, 2019. These designated net assets can be used to fund the Organization's operations if necessary.

8. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019, net assets with donor restrictions were available for the following purposes:

General Support, Time Restricted	<u>\$ 183,942</u>
----------------------------------	-------------------

For the year ended December 31, 2019, net assets released from donor restrictions were as follows:

General Support, Time Restricted	<u>\$ 474,000</u>
----------------------------------	-------------------

9. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's cash flows have seasonal variations due to the timing of receipts of contribution revenue and vendor payments. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

THE SENTENCING PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

9. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

As of December 31, 2019, the following financial assets and liquidity sources were available for general operating purposes:

Financial Assets

Cash and Cash Equivalents	\$ 1,277,652
Investments	1,515,216
Accounts Receivable	4,631
Contributions Receivable	<u>183,942</u>
Total Financial Assets Available within One Year	<u><u>\$ 2,981,441</u></u>

10. RETIREMENT PLAN

The Organization sponsors a 403(b) plan (the Plan) for its employees. Employees are eligible to participate in the Plan after four months of employment. The Organization will contribute 4% of each employee's annual salary to the Plan upon the condition that the employee contributes a minimum of 4% of their annual salary. The employees are fully vested in the employer contribution when it is made. For the year ended December 31, 2019, the Organization contributed \$33,165 to the Plan.

11. SUBSEQUENT EVENTS

The spread of COVID-19 (coronavirus disease) has had a disruptive impact on the daily life and operations of individuals, businesses, and nonprofit organizations around the world. There is uncertainty about financial and economic impacts in all sectors of the economy. The financial markets have experienced significant volatility and this may continue for an extended period of time. In light of these circumstances, management of the Organization is currently reviewing its ongoing operations, future meetings, cash management, and fundraising strategies, etc., in an attempt to mitigate any adverse financial impact. Actions may include rescheduling of programs and services, consideration of virtual meetings, and other possibilities. While management continues to work to provide the best outcomes, it cannot currently assess the likelihood of being able to successfully mitigate any adverse financial impact to the Organization.

The Organization has evaluated all subsequent events through May 22, 2020, the date the financial statements were issued. No subsequent events requiring disclosure were identified based on this evaluation.