



FINANCIAL STATEMENTS

DECEMBER 31, 2021

THE SENTENCING PROJECT

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DECEMBER 31, 2021**

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Independent Auditor's Report

Board of Directors
The Sentencing Project

Opinion

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, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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 The Sentencing Project as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 The Sentencing Project and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Sentencing Project's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities 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 auditor's 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 generally accepted auditing standards will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 generally accepted auditing standards, 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 The Sentencing Project'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 The Sentencing Project'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.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
October 12, 2022

Certified Public Accountants

THE SENTENCING PROJECT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

Assets

Current Assets

Cash and Cash Equivalents	\$ 923,542
Investments	5,024,509
Contributions Receivable	1,296,425
Prepaid Expenses	<u>77,678</u>

Total Current Assets 7,322,154

Property and Equipment, Net

Furniture	9,381
Software and Computers	178,931
Leasehold Improvements	<u>49,745</u>

Total Property and Equipment 238,057

Less Accumulated Depreciation (139,551)

Property and Equipment, Net 98,506

Security Deposit

8,747

Total Assets

\$ 7,429,407

Liabilities and Net Assets

Current Liabilities

Accounts Payable	\$ 40,520
Accrued Expenses	<u>72,802</u>

Total Current Liabilities 113,322

Net Assets

Net Assets Without Donor Restrictions	
Board Designated	500,000
Undesignated	<u>4,239,493</u>

Total Net Assets Without Donor Restrictions 4,739,493

Net Assets With Donor Restrictions 2,576,592

Total Net Assets 7,316,085

Total Liabilities and Net Assets

\$ 7,429,407

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues			
Contributions	\$ 2,814,616	\$ 2,351,942	\$ 5,166,558
Consulting Income	25	-	25
Honoraria and Other Income	4,250	-	4,250
Investment Income	102,580	-	102,580
Net Assets Released from Restrictions	615,331	(615,331)	-
Total Revenues	3,536,802	1,736,611	5,273,413
Program and Supporting Services Expenses			
Program Services			
Policy Reform Advocacy	313,323	-	313,323
Research and Public Education	619,917	-	619,917
Extreme Sentencing	486,000	-	486,000
Voting Rights	278,397	-	278,397
Youth Justice	477,917	-	477,917
Total Program Services	2,175,554	-	2,175,554
Supporting Services			
Fundraising	404,766	-	404,766
Management and General	255,030	-	255,030
Total Supporting Services	659,796	-	659,796
Total Expenses	2,835,350	-	2,835,350
Change in Net Assets	701,452	1,736,611	2,438,063
Net Assets, Beginning of Year	4,038,041	839,981	4,878,022
Net Assets, End of Year	\$ 4,739,493	\$ 2,576,592	\$ 7,316,085

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Policy Reform Advocacy	Research and Public Education	Extreme Sentencing	Voting Rights	Youth Justice		Fundraising	Management and General		
Salaries and Benefits	\$ 230,411	\$ 472,992	\$ 223,257	\$ 153,906	\$ 352,321	\$ 1,432,887	\$ 213,824	\$ 82,595	\$ 296,419	\$ 1,729,306
Consultants	50,546	21,042	132,825	65,977	81,213	351,603	112,276	13,213	125,489	477,092
Grants to Others	-	-	95,000	30,000	-	125,000	-	-	-	125,000
Meetings	2,750	18,021	2,180	1,793	3,440	28,184	3,666	5,360	9,026	37,210
Printing	723	2,120	700	1,657	1,105	6,305	13,687	1,722	15,409	21,714
Mail House Services	-	-	-	-	-	-	14,730	-	14,730	14,730
Travel	4,994	3,139	8,235	4,630	4,126	25,124	895	2,297	3,192	28,316
Accounting	-	-	-	-	-	-	-	96,357	96,357	96,357
Postage and Delivery	529	1,086	544	353	809	3,321	10,742	1,260	12,002	15,323
Occupancy	13,995	28,729	13,560	9,348	21,400	87,032	12,988	33,340	46,328	133,360
Office Supplies	1,144	2,231	1,061	726	1,662	6,824	1,644	2,589	4,233	11,057
Telephone and Fax	643	1,321	623	430	984	4,001	597	1,533	2,130	6,131
Office Equipment and Maintenance	543	1,114	526	363	830	3,376	504	1,293	1,797	5,173
Depreciation and Amortization	2,046	4,199	1,982	1,366	3,128	12,721	1,898	4,873	6,771	19,492
Insurance	358	735	347	239	548	2,227	332	853	1,185	3,412
Bank Service Charges	1,586	3,256	1,537	1,060	2,425	9,864	1,472	3,779	5,251	15,115
Dues/Subscriptions/Registration Fees	1,997	14,303	1,073	829	1,988	20,190	5,592	2,638	8,230	28,420
Website	230	44,155	1,733	5,501	1,436	53,055	9,616	548	10,164	63,219
Other	828	1,474	817	219	502	3,840	303	780	1,083	4,923
Total Expenses	\$ 313,323	\$ 619,917	\$ 486,000	\$ 278,397	\$ 477,917	\$ 2,175,554	\$ 404,766	\$ 255,030	\$ 659,796	\$ 2,835,350

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cash Flows from Operating Activities	
Change in Net Assets	\$ 2,438,063
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation and Amortization	19,492
Net Gain on Investments	(102,580)
<u>(Increase) Decrease in Assets</u>	
Accounts Receivable	6,269
Contributions Receivable	(710,673)
Prepaid Expenses	(50,756)
<u>Increase (Decrease) in Liabilities</u>	
Accounts Payable	(32,162)
Accrued Expenses	32,118
	1,599,771
 Cash Flows from Investing Activities	
(Purchases) Sales of Property and Equipment	(80,001)
(Purchases) Sales of Investments	(9,461,451)
Proceeds from Sales of Investments	7,405,774
	(2,135,678)
Net Cash Used in Investing Activities	(2,135,678)
Net Decrease in Cash and Cash Equivalents	(535,907)
Cash and Cash Equivalents, Beginning of the Year	1,459,449
Cash and Cash Equivalents, End of Year	\$ 923,542

See accompanying Notes to Financial Statements.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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 main source of support is contributions.

The Organization's programs are:

Policy Reform Advocacy - The Organization advocates at the federal, state, and local level for reducing the use of incarceration to address crime, decreasing the number of people in prison in favor of more community-based solutions, reforming sentencing policies that produce mass incarceration and racial, gender or economic injustice, expanding and restoring voting rights to Americans with convictions, and protecting youth from the adult criminal legal system.

Research and 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 laws, policies, and practices. Findings are shared through highly visible public education campaigns that include earned media, webinars, newsletters, action alerts, and social media. Policy priorities include extreme sentencing, voting rights, youth justice, and racial and ethnic disparities.

Extreme Sentencing - The Organization plays a leadership role in campaigns and coalitions at the national, state, and local level in support of policies that expand the use of post-conviction release mechanisms, eliminate virtual life sentences and life sentences without parole, cap sentences at 20 years, and foster a culture that rejects excessive punishment in favor of restorative approaches to safety. The Organization produces cutting-edge research and promotes media and stakeholder engagement on sentencing policies, reforms, and impacts to foster a shift in the national narrative around extreme sentences.

Voting Rights - The Organization is a leader in national efforts to educate the public about the disenfranchisement of justice-involved people, the racially disparate impacts of current felony disenfranchisement laws and jail practices, and the need to implement universal suffrage for all citizens in order to end the role of the criminal legal system in mediating the central right of voting in a democracy. It works at the federal, state, and local level to advocate for full voting rights for individuals in jail, prison, and the community regardless of conviction status.

Youth Justice - The Organization works to safeguard youth from the ravages of the adult criminal legal system and explore alternatives to youth involvement in both the juvenile and adult justice systems. In addition to advocating for an end to policies that transfer youth to the adult criminal legal system, the Organization advocates for the shielding of minors from avoidable involvement in the youth justice system, including ending the presence of police in schools, and promoting treatment-based approaches to youthful behavioral problems rather than punishment. In all this work a racial justice lens is paramount.

Method of Accounting

The financial statements have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Cash and Cash Equivalents

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

Contributions Receivable

Contributions receivable are recorded at the amount the Organization expects to collect on balances outstanding at the end of the year. Amounts to be received over multiple years are discounted to their net present value using the applicable interest rate if such discount would be material. Management closely monitors receivables and charges off to expense any balances that are determined to be uncollectible. No reserve for doubtful accounts has been established because management expects to collect receivables in full.

Investments

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

Property and Equipment

Property and equipment are stated at cost, if purchases, or fair market value on donation date, if contributed. 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 and Support

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. Conditional grants and contributions are reported as refundable advances until the date that the conditions have been substantially met or explicitly waived by the donor. Unconditional restricted contributions for which the restrictions are met in the year received are considered contributions without donor restrictions for financial statement purposes.

Consulting and Honoraria and Other Income

Consulting, honoraria, and other income is recognized when earned, at the points in time that performance obligations are met. Amounts received in advance of satisfaction of performance obligations are recorded as deferred revenue in the statement of financial position.

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.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Income Taxes (Continued)

No provision for income tax is required for the year ended December 31, 2021, 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.

Functional Allocation of Expenses

The costs of providing various programs and other 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 benefitted. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include benefits, occupancy and other indirect costs as well as overhead. These expenses are generally allocated on the basis of staff time and effort. Expenses directly identifiable to specific programs and supporting activities are presented accordingly.

2. NEW ACCOUNTING PRONOUNCEMENT NOT YET ADOPTED

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842) supersedes the leasing guidance in *Leases* (Topic 840). Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. Management has not evaluated the impact of the pending adoption of the new standard on the financial statements.

3. CONCENTRATIONS AND INVESTMENT RISK

As of December 31, 2021, approximately 66% of contributions receivable consisted of amounts due from two donors. For the year ended December 31, 2021, 47% of contributions revenue was from two donors.

THE SENTENCING PROJECT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

3. CONCENTRATIONS AND INVESTMENT RISK (CONTINUED)

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

The balance of the Vanguard Life Strategy Moderate Growth Fund as of December 31, 2021, of approximately \$5,024,000 represents approximately 68% of total assets. Due to the level of risk associated with such an investment, 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.

4. FAIR VALUE MEASUREMENTS

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets (examples include equity securities);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate and municipal bonds); and

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment (examples include certain private equity securities, alternate investments, and split-interest agreements).

The following presents the Organization's assets measured at fair value as of December 31, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Vanguard Life Strategy				
Moderate Growth Fund	\$ 5,014,248	\$ 5,014,248	\$ -	\$ -
Other Mutual Funds	10,261	10,261	-	-
Total Investments at Fair Value	<u>\$ 5,024,509</u>	<u>\$ 5,024,509</u>	<u>\$ -</u>	<u>\$ -</u>

5. OPERATING LEASE

The Organization leases office space under an operating lease agreement that expires June 30, 2024. Future minimum lease payments required under the lease agreement are:

For the Years Ending December 31,

2022	\$ 131,808
2023	136,422
2024	69,384
Total	<u>\$ 337,614</u>

The future minimum annual lease payments are subject to escalations for real estate taxes. The lease contains an option to renew for a sixty-month period at the current market rate.

THE SENTENCING PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

6. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2021, net assets with donor restrictions were available for the following purposes:

Youth Justice	\$ 224,650
Extreme Sentencing	889,036
Voting Rights	550,000
Policy Reform Advocacy	206,481
	<u>1,870,167</u>
Time Restrictions	706,425
	<u>\$ 2,576,592</u>

Net assets released from restrictions for the year ended December 31, 2021, were as follows:

Youth Justice	\$ 151,948
Campaign to End Life Sentencing	132,631
	<u>284,579</u>
Time Restrictions	330,752
	<u>\$ 615,331</u>

7. 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.

As of December 31, 2021, the following financial assets and liquidity sources were available for general operating purposes:

Cash and Cash Equivalents	\$ 923,542
Investments	5,024,509
Contributions Receivable	1,296,425
	<u>7,244,476</u>
Less Net Assets With Donor Purpose Restrictions	<u>(224,650)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 7,019,826</u>

Included in the financial assets available is an operating reserve fund (the Reserve) designated by the Board of Directors to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization. The Reserve is funded with surplus net assets without donor restrictions 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 the 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, 2021. When originally established in 2011, this represented approximately six months of operating costs. The Board of Directors is currently

THE SENTENCING PROJECT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

7. LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

reviewing the board designated amount to determine if it should be increased based on the current financial position of the Organization. These net assets can be used to fund the Organization's operations if necessary, with Board approval.

8. 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, 2021, the Organization contributed approximately \$41,000 to the Plan.

9. COVID-19 FINANCIAL RISK

The spread of COVID-19 (coronavirus disease) has had a disruptive impact on the daily life and operations of individuals, businesses, and nonprofits 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 continues to assess how best to adapt to changed circumstances.

10. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through October 12, 2022, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2021, the Organization's investment in the Vanguard Life Strategy Moderate Growth Fund (the Fund) incurred a realized loss of approximately \$63,000 during the nine months ended September 30, 2022, and an unrealized loss as of September 30, 2022, of approximately \$1,062,000. Management believes this overall decline in the Fund is directly related to the overall decline in the financial markets.