

THE MARSHALL PROJECT, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015 AND 2014

THE MARSHALL PROJECT, INC.

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9
Supplementary Information	
Independent Auditors' Report on Supplementary Information	11
Schedule of Functional Expenses	12



LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Marshall Project, Inc.

We have audited the accompanying financial statements of The Marshall Project, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 of 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 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 The Marshall Project, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
October 5, 2016

THE MARSHALL PROJECT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash (Note 5a)	\$1,246,741	\$ 608,285
Unconditional promises to give (Notes 1b and 3)		
Unrestricted	402,445	200,000
Temporarily restricted	1,538,277	1,761,745
Accounts receivable	-	3,000
Prepaid expenses	36,806	36,806
Property and equipment, at cost, net of accumulated depreciation (Notes 1c and 4)	<u>211,164</u>	<u>118,526</u>
Total Assets	<u><u>\$3,435,433</u></u>	<u><u>\$2,728,362</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 14,315	\$ 14,204
Salaries payable	-	16,667
Deferred rent (Note 1d)	<u>111,054</u>	<u>-</u>
Total Liabilities	<u>125,369</u>	<u>30,871</u>
Commitments and Contingency (Note 7)		
Net Assets		
Unrestricted	1,584,287	548,246
Temporarily restricted (Note 2)	<u>1,725,777</u>	<u>2,149,245</u>
Total Net Assets	<u>3,310,064</u>	<u>2,697,491</u>
Total Liabilities and Net Assets	<u><u>\$3,435,433</u></u>	<u><u>\$2,728,362</u></u>

See notes to financial statements.

THE MARSHALL PROJECT, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in Unrestricted Net Assets						
Revenue and Other Support						
Contributions (Note 5b)	\$ 3,783,320	\$ 989,032	\$4,772,352	\$ 2,990,010	\$ 2,149,245	\$5,139,255
Donated services (Note 6)	52,985	-	52,985	35,294	-	35,294
Other income	32,637	-	32,637	-	-	-
	<u>3,868,942</u>	<u>989,032</u>	<u>4,857,974</u>	<u>3,025,304</u>	<u>2,149,245</u>	<u>5,174,549</u>
Net assets released from restrictions						
Satisfaction of time and program restrictions	1,412,500	(1,412,500)	-	-	-	-
	<u>5,281,442</u>	<u>(423,468)</u>	<u>4,857,974</u>	<u>3,025,304</u>	<u>2,149,245</u>	<u>5,174,549</u>
Total Revenue and Other Support						
Expenses						
Program Services	3,408,287	-	3,408,287	1,879,275	-	1,879,275
Supporting Services						
General and administrative	575,242	-	575,242	422,329	-	422,329
Fundraising	261,872	-	261,872	175,454	-	175,454
Total Supporting Services	<u>837,114</u>	<u>-</u>	<u>837,114</u>	<u>597,783</u>	<u>-</u>	<u>597,783</u>
Total Expenses	<u>4,245,401</u>	<u>-</u>	<u>4,245,401</u>	<u>2,477,058</u>	<u>-</u>	<u>2,477,058</u>
Increase(decrease) in net assets	1,036,041	(423,468)	612,573	548,246	2,149,245	2,697,491
Net assets, beginning of year	<u>548,246</u>	<u>2,149,245</u>	<u>2,697,491</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 1,584,287</u>	<u>\$ 1,725,777</u>	<u>\$3,310,064</u>	<u>\$ 548,246</u>	<u>\$ 2,149,245</u>	<u>\$2,697,491</u>

See notes to financial statements.

THE MARSHALL PROJECT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 612,573	\$2,697,491
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	68,896	12,946
(Increase) decrease in:		
Unconditional promises to give	21,023	(1,961,745)
Accounts receivable	3,000	(3,000)
Prepaid expenses	-	(36,806)
Decrease (increase) in:		
Accounts payable and accrued expenses	111	14,204
Salaries payable	(16,667)	16,667
Deferred rent	111,054	-
Net Cash Provided By Operating Activities	<u>799,990</u>	<u>739,757</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	<u>(161,534)</u>	<u>(131,472)</u>
Net increase in cash	638,456	608,285
Cash, beginning of year	<u>608,285</u>	<u>-</u>
Cash, End of Year	<u><u>\$1,246,741</u></u>	<u><u>\$ 608,285</u></u>

See notes to financial statements.

THE MARSHALL PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

The Marshall Project, Inc. ("The Marshall Project") is a nonpartisan news organization incorporated as a not-for-profit corporation in the state of Delaware. Its purpose is to raise public awareness around issues of criminal justice and the possibility for reform while remaining nonpartisan. However, The Marshall Project is not neutral. By bringing transparency to the systemic problems that plague the courts and prisons, The Marshall Project helps stimulate a national conversation about how best to reform the system of crime and punishment.

b - Contributions and Unconditional Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to The Marshall Project, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Marshall Project uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

c - Property and Equipment

Purchased property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the asset. The Marshall Project's policy is to capitalize purchases of over \$1,000 that have a useful life of more than a year.

d - Rent Expense

Rent expense is recorded on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

e - Financial Statement Presentation

The Marshall Project reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

THE MARSHALL PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Estimates

The Marshall Project uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses.

g - Tax Status

The Marshall Project, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

h - Subsequent Events

The Marshall Project has evaluated subsequent events through October 5, 2016, the date that the financial statements are considered available to be issued.

Note 2 - Temporarily Restricted Net Assets

Temporarily restricted net assets are designated by the donors for future periods and programs.

Note 3 - Unconditional Promises to Give

Unconditional promises to give as of December 31, 2015 and 2014 are due as follows:

	<u>2015</u>	<u>2014</u>
Due within one year	\$1,575,000	\$1,412,500
Due in one to five years	<u>400,000</u>	<u>600,000</u>
	1,975,000	2,012,500
Less: Discount to present value	<u>(34,278)</u>	<u>(50,755)</u>
	<u>\$1,940,722</u>	<u>\$1,961,745</u>

Unconditional promises to give which are due after one year are discounted to net present value using a 3% discount rate. Uncollectible promises to give are expected to be insignificant.

THE MARSHALL PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 - Property and Equipment

Property and equipment at December 31, 2015 and 2014 consists of the following:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Furnitures and Fixtures	3 years	\$ 97,573	\$ 21,334
Computers	5 years	73,563	32,549
Website	3 years	77,589	77,589
Leasehold improvements	5 years	44,281	-
		<u>293,006</u>	<u>131,472</u>
Less: Accumulated depreciation		<u>(81,842)</u>	<u>(12,946)</u>
Total		<u>\$211,164</u>	<u>\$118,526</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$68,896 and \$12,946, respectively.

Note 5 - Concentrations

- a - The Marshall Project maintains its cash balances in one financial institution. Cash balances, at times, may exceed federally insured limits.
- b - The Marshall Project received approximately 78% and 84% of its total revenue and public support from five donors and four donors in 2015 and 2014, respectively.

Note 6 - Donated Services

The Marshall Project received donated legal services totaling \$52,985 and \$35,294 in 2015 and 2014, respectively.

Note 7 - Commitments and Contingency

- a - The Marshall Project occupied office space through April 2015 based on an office space sharing agreement with an entity owned by a Board member. The Marshall Project paid the entity for its pro rata share of total occupancy costs, including utilities, property taxes, telephone and internet services, shared office equipment and maintenance costs. Total expense under this agreement was \$49,978 and \$86,129 in 2015 and 2014, respectively.

In 2015, The Marshall Project entered into a lease agreement for new space with a term commencing in April 2015 through March 2020. The lease is guaranteed by a Board member.

THE MARSHALL PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 7 - Commitments and Contingency (continued)

a - (continued)

The future minimum annual obligation under these agreements is as follows:

<u>Year Ending December 31,</u>	
2016	\$391,050
2017	391,050
2018	391,050
2019	391,050
Thereafter, through March, 2020	97,988

Rent expense under this lease was \$281,308 for the year ended December 31, 2015. In connection with the new lease, a security deposit of \$195,975 is required, which has been posted in the form of a letter of credit.

- b - In 2015, The Marshall Project established a defined contribution pension plan for all eligible employees. Employees make voluntary contributions to the plan, subject to statutory limitations. The Marshall Project does not contribute to the plan.
- c - The Marshall Project may be involved in litigation and legal claims during the ordinary course of its business. One pending matter is a lawsuit filed seeking monetary damages for alleged copyright infringement. Management believes the claim is without merit, intends to vigorously defend its position, and believe that the outcome of the action will have no material effect of The Marshall Project's financial position.

Note 8 - Related Party Transactions

The Marshall Project paid the entity of a Board member \$49,979 and \$86,129 during 2015 and 2014, respectively, under an office space sharing agreement (Note 7a). This entity also provided a contribution to The Marshall Project in 2014 in the amount of \$187,207 for the expenses paid on behalf of The Marshall Project during the period of its initial operations.

Note 9 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
The Marshall Project, Inc.

We have audited the financial statements of The Marshall Project, Inc. as of and for the years ended December 31, 2015 and 2014, and our report thereon dated October 5, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2015 with comparative totals for 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
October 5, 2016

THE MARSHALL PROJECT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Program Services	Supporting Services			2015	2014
		General and Administrative	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes and employee benefits	\$2,683,469	\$ 343,518	\$ 222,945	\$566,463	\$3,249,932	\$1,854,290
Professional fees	150,767	132,627	3,739	136,366	287,133	276,085
Publications and research	20,628	984	-	984	21,612	12,927
Information technology	30,266	27,699	35	27,734	58,000	45,683
Travel	93,289	1,104	-	1,104	94,393	72,741
Occupancy	273,543	35,017	22,726	57,743	331,286	100,116
Events	9,600	7,294	5,183	12,477	22,077	24,224
Office supplies	26,375	3,494	2,191	5,685	32,060	51,896
Insurance	38,551	8,242	-	8,242	46,793	8,914
Advertising	11,207	495	150	645	11,852	5,035
Bank fees	2,762	3,875	-	3,875	6,637	662
Miscellaneous	10,943	3,610	177	3,787	14,730	11,539
Depreciation	56,887	7,283	4,726	12,009	68,896	12,946
Total Expenses, 2015	<u>\$3,408,287</u>	<u>\$ 575,242</u>	<u>\$ 261,872</u>	<u>\$837,114</u>	<u>\$4,245,401</u>	
Total Expenses, 2014	<u>\$1,879,275</u>	<u>\$ 422,329</u>	<u>\$ 175,454</u>	<u>\$597,783</u>		<u>\$2,477,058</u>

See independent auditors' report on supplementary information.