

DAVID G. FAW
CERTIFIED PUBLIC
ACCOUNTANT

THE PENNSYLVANIA INNOCENCE PROJECT

FINANCIAL STATEMENTS

DECEMBER 31, 2018

**THE PENNSYLVANIA INNOCENCE PROJECT
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FOR THE YEAR ENDED DECEMBER 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Pennsylvania Innocence Project
Philadelphia, Pennsylvania

Report on the Financial Statements

I have audited the accompanying financial statements of The Pennsylvania Innocence Project (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pennsylvania Innocence Project as of December 31, 2018, 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.

Report on Summarized Comparative Information

I have previously audited The Pennsylvania Innocence Project 2017 financial statements, and my report dated April 9, 2018, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink, appearing to read "Joel B. [unclear]", is positioned above the printed name of the CPA.

Certified Public Accountant

Wayne, Pennsylvania
June 5, 2019

**THE PENNSYLVANIA INNOCENCE PROJECT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(with comparative totals as of December 31, 2017)**

	2018	2017
<u>Assets</u>		
Cash and equivalents	\$ 890,354	\$ 800,507
Contributions and grants receivable	81,434	171,513
Prepaid expense	-	1,000
Investments	286,333	269,708
Total assets	\$ 1,258,121	\$ 1,242,728
<u>Liabilities</u>		
Accounts payable	\$ 7,208	\$ 9,972
Accrued expense	16,928	13,517
Accrued vacation	-	11,917
Total liabilities	24,136	35,406
<u>Net assets</u>		
Without donor restrictions	1,146,419	1,035,869
With donor restrictions	87,566	171,453
Total net assets	1,233,985	1,207,322
Total liabilities and net assets	\$ 1,258,121	\$ 1,242,728

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

**THE PENNSYLVANIA INNOCENCE PROJECT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative totals for the year ended December 31, 2017)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>	<u>Total 2017</u>
<u>Support and revenue</u>				
Firms	\$ 36,571	\$ -	\$ 36,571	\$ 26,777
Foundations	49,520	-	49,520	296,000
Government	15,747	-	15,747	123,514
Individuals	259,904	12,725	272,629	192,812
Fundraising events:				
Special events	360,958	-	360,958	346,171
Less: cost of direct donor benefits	<u>(52,854)</u>	<u>-</u>	<u>(52,854)</u>	<u>(61,334)</u>
	308,104	-	308,104	284,837
Donated services and facilities	444,127	-	444,127	468,092
Nonprofit organizations	2,460	-	2,460	6,122
Workshop fees	23,000	-	23,000	21,000
Interest	11,567	-	11,567	7,085
(Loss) gain on investments	(13,308)	-	(13,308)	12,872
Net assets released from restrictions	<u>96,612</u>	<u>(96,612)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,234,304</u>	<u>(83,887)</u>	<u>1,150,417</u>	<u>1,439,111</u>
<u>Expenses</u>				
Program services	817,823	-	817,823	895,738
Management and general	158,571	-	158,571	92,085
Fundraising	<u>147,360</u>	<u>-</u>	<u>147,360</u>	<u>98,790</u>
Total expenses	<u>1,123,754</u>	<u>-</u>	<u>1,123,754</u>	<u>1,086,613</u>
Change in net assets	110,550	(83,887)	26,663	352,498
Net assets at beginning of year	<u>1,035,869</u>	<u>171,453</u>	<u>1,207,322</u>	<u>854,824</u>
Net assets at end of year	<u>\$ 1,146,419</u>	<u>\$ 87,566</u>	<u>\$ 1,233,985</u>	<u>\$ 1,207,322</u>

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

**THE PENNSYLVANIA INNOCENCE PROJECT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative totals for the year ended December 31, 2017)**

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 26,663	\$ 352,498
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Loss (gain) on investment	13,308	(12,872)
Changes in assets and liabilities:		
Contributions and grants receivable	90,080	(151,331)
Prepaid expense	1,000	(1,000)
Accounts payable	(2,764)	9,972
Accrued vacation	(11,917)	11,917
Accrued expenses	<u>3,411</u>	<u>(2,296)</u>
Net cash provided by operating activities	<u>119,781</u>	<u>206,888</u>
<u>Cash flows from investing activities</u>		
Proceeds from sale of investments	1,458	2,821
Purchases of investments	<u>(31,392)</u>	<u>(38,729)</u>
Net cash used in investing activities	<u>(29,934)</u>	<u>(35,908)</u>
Net increase in cash	89,847	170,980
Cash and equivalents at beginning of year	<u>800,507</u>	<u>629,527</u>
Cash and equivalents at end of year	<u>\$ 890,354</u>	<u>\$ 800,507</u>

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

**THE PENNSYLVANIA INNOCENCE PROJECT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**
(with comparative totals for the year ended December 31, 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total 2018</u>	<u>Total 2017</u>
Personnel					
Salaries	\$ 246,617	\$ 94,530	\$ 103,425	\$ 444,572	\$ 451,471
Payroll tax	19,944	7,645	8,363	35,952	34,339
Health insurance	29,395	11,267	12,327	52,989	25,635
Total personnel expense	295,956	113,442	124,115	533,513	511,445
Accounting and audit	-	14,189	-	14,189	12,549
Bank fees	2,812	1,078	1,180	5,070	2,235
Donated facilities	13,500	5,175	5,662	24,337	27,168
Donated services	419,790	-	-	419,790	440,924
Dues and subscriptions	1,389	-	350	1,739	1,315
Exonoree expense	4,313	-	-	4,313	1,786
Insurance	2,264	868	950	4,082	4,373
Licenses and fees	2,223	852	932	4,007	2,841
Office expense	4,922	1,886	2,064	8,872	12,896
Other professional fees	25,277	2,425	5,000	32,702	8,348
Postage	3,225	1,236	1,353	5,814	3,822
Rent	12,663	4,854	5,311	22,828	25,000
Travel and conferences	29,489	12,566	443	42,498	31,911
Total expenses	<u>\$ 817,823</u>	<u>\$ 158,571</u>	<u>\$ 147,360</u>	<u>\$ 1,123,754</u>	<u>\$ 1,086,613</u>

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

**THE PENNSYLVANIA INNOCENCE PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 1 - Organization

The Pennsylvania Innocence Project (PIP) has a four-fold mission to: (1) secure the exoneration, release from imprisonment, and restoration to society of persons who are innocent and have been wrongly convicted; (2) provide clinical training and experience to students in the fields of law, journalism, criminal justice, and forensic science; (3) collaborate with law enforcement agencies and the courts to address systemic causes of wrongful convictions; and (4) strengthen and improve the effectiveness of the criminal justice system in Pennsylvania through public education and advocacy.

PIP uses the service of law students working through a clinical program to conduct research and investigation of applicants' cases under the supervision of at least one law school clinical faculty member, as well as PIP's executive director, legal director and volunteer attorneys. PIP uses experienced panels of lawyers and others to review the analyzed cases and select those that merit actual legal representation. Volunteer attorneys from the legal community in the Philadelphia and Pittsburgh regions will represent those applicants whose cases are selected by the case review panel.

As it expands PIP anticipates participation by law students and faculty from all the accredited law schools in greater Philadelphia and throughout Pennsylvania, as well as students and faculty in various other disciplines, including journalism, criminal justice and forensic science whose academic focus is directly relevant to advancing PIP's mission.

PIP receives the bulk of its funding from the Philadelphia and Pittsburgh area public interest law communities and, to a lesser extent, government grants and contracts.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of PIP have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require PIP to report information regarding its financial position and activities according to the following net asset classifications:

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**THE PENNSYLVANIA INNOCENCE PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions and Grants Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Contributions

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

Contributed Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received - see Note 6.

Property and Equipment

Depreciation on office equipment is recorded using the straight-line method over the estimated useful lives of assets. PIP follows the practice of capitalizing, at cost, all expenditures for equipment in excess of \$1,000. There is no capitalized equipment as of December 31, 2018.

Functional Allocation of Expenses

The costs of providing PIP's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are charged directly to program, management and general, and fundraising categories based on specific identification. Indirect expenses have been allocated based on salary expenditures.

Statement of Cash Flows

PIP utilizes the indirect method for reporting the increase or decrease in cash and equivalents. Cash equivalents, when applicable, are defined as short term, highly liquid investments with an initial maturity of three months or less.

THE PENNSYLVANIA INNOCENCE PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates, and these differences could be material.

Income Taxes

PIP is a not-for-profit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for Federal or state income taxes is included in these financial statements. PIP follows the income tax standard for uncertain tax positions. Should the tax-exempt status be challenged in the future, PIP's last three tax years are open for examination by the IRS.

Investments

PIP presents its investments in accordance with FASB ASC 958-320, "Accounting for Certain Investments Held by Not-For-Profit Organizations". Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The fair values of these investments are subject to change based on the fluctuations of market values. Unrealized gains and losses are included in the change in net assets.

Compensated Absences

Employees of PIP are entitled to paid vacation, paid sick days and personal days off under a single PTO policy. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. PIP's policy is to recognize the costs of compensated absences when actually paid to employees.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PIP has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Note 3 - Concentration of Credit Risk

PIP maintains cash accounts, which, at times, may exceed federally insured limits. As of December 31, 2018, cash balances in excess of insured limits were \$433,106. PIP has not experienced any losses from maintaining cash accounts which are in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

**THE PENNSYLVANIA INNOCENCE PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 4 - Commitment

PIP has offices located in Philadelphia, Pennsylvania and Pittsburgh, Pennsylvania. Temple University subsidizes 50% of the cost of occupancy and other in-kind contributions. Duquesne University contributes 100% of the occupancy in Pittsburgh, along with administrative support and other in-kind items. See note 6. Rent expense for the year ended December, 31, 2018 was \$22,828.

Note 5 - Fair Value Measurements

The table below presents the balances of assets measured at fair value on a recurring basis as of December 31, 2018.

	<u>Fair Value Measurements at December 31, 2018 Using</u>			
	Assets Measured at Fair Value <u>December 31, 2018</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Mutual funds:				
Fixed income	\$ 232,197	\$ 232,197	\$ -	\$ -
Equity	51,158	51,158		
Equities	<u>2,978</u>	<u>2,978</u>	<u>-</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 286,333</u>	<u>\$ 286,333</u>	<u>\$ -</u>	<u>\$ -</u>

Note 6 - Donated Services and Occupancy

In-kind donated services and facilities consist of the following:

Legal services - various	\$ 407,490
Temple University - Space, equipment usage and supplies	28,646
Duquesne University - Space, administrative support and office expense	<u>7,991</u>
	<u>\$ 444,127</u>

The amount of contributed services recognized as income equals the amount expensed. Therefore there is no resultant effect on the change in net assets.

Note 7 - Net Assets with Donor Restrictions

	Balance <u>12/31/2017</u>	Additions	Released or Reclassified from Restrictions	Balance <u>12/31/2018</u>
PTS Foundation (Forensic Science)	\$ 100,000	\$ -	\$ (48,456)	\$ 51,544
Independence Foundation (Time Restricted)	27,083	-	(10,000)	17,083
DST Systems (Time Restricted)	30,000	-	(30,000)	-
Various (Exonoree Reentry)	<u>14,370</u>	<u>12,725</u>	<u>(8,156)</u>	<u>18,939</u>
	<u>\$ 171,453</u>	<u>\$ 12,725</u>	<u>\$ (96,612)</u>	<u>\$ 87,566</u>

**THE PENNSYLVANIA INNOCENCE PROJECT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

Note 8 - Availability and Liquidity

The following represents PIP's current financial assets at December 31, 2018:

Cash and equivalents	\$ 890,354
Contributions and grants receivable	<u>81,434</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 971,788</u>

PIP has been able to maintain financial assets to meet approximately 12 months of operating expenses. As part of its liquidity plan, excess cash may in the future be invested in short-term investments, including money market accounts.

Note 9 - Prior Year Information

Certain financial statements contained herein include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with PIP's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Note 10 - Reclassifications

Certain amounts for 2017 have been reclassified to conform with the 2018 presentations.

Note 11 - Evaluation of Subsequent Events

PIP has evaluated subsequent events through June 5, 2019, the date which the financial statements were available to be issued. No items were noted which require disclosure in the financial statements.

2018 HIGHLIGHTS

Securing exonerations

In 2018, the Project secured the exoneration and release from prison for **Dontia Patterson** in Philadelphia. In addition, in Cumberland County we negotiated an *Alford* plea for **Letitia Smallwood**. Ms. Smallwood's case was reversed in 2016, and she has been home on unsecured bail since then. This plea finally brings her 42-year ordeal to an end.

Clinical training

Throughout 2018, we continued our work with clinical students from Temple, Villanova, Drexel, Penn, Duquesne and Pitt law schools. We also hosted undergraduate students from Temple and Arcadia University. In the summer of 2018, we had 14 full-time law student interns between both our Pittsburgh and Philadelphia offices from law schools and undergraduate programs around the area.

Addressing the causes of wrongful convictions

Executive Director Marissa Bluestine worked with state Senator Stewart Greenleaf and Representative Tedd Nesbitt as well as the Pennsylvania District Attorneys Association on legislation to amend the deadline for filing a Post-Conviction Relief Act (PCRA) petition, based on the discovery of new evidence, from 60 days to one year, and a new DNA post-conviction testing law. Those bills were signed into law in 2018 as Act 146 and Act 147, respectively.

Public education and advocacy

The Project hosted or co-hosted the following educational events in 2018:

- January – “Third Circuit Appellate Litigation CLE” – CLE by Nilam Sanghvi for Third Circuit Bar Association and the Eastern District of Pennsylvania Chapter of the Federal Bar Association
- May – “Pre-trial motion practice” – Elizabeth DeLosa, Allegheny County Bar Association
- June – “Innocence 101” – T.C. Tanski and Elizabeth DeLosa, Pennsylvania Bar Institute
- June – “Using Experts in Forensic Science Litigation” – Nilam Sanghvi, Pennsylvania Bar Institute
- October - “The Gathering”: Unforgettable Stories of Death Row Exonerees and The Lawyers Who Helped Set Them Free” – Marissa Bluestine, Lightstream Communications

Staff Developments

In August we also hired a part-time social worker who works directly with our clients and provides programming for clients in the community. We also brought on an administrative assistant for the Pittsburgh office through a partnership with PULSE Pittsburgh.

Although our Development Director left for another position in October, 2018, we finished the year with a surplus over budget, and a higher donation rate for the year-end appeal than ever before.

Pennsylvania Innocence Project

Board Member Listing

2018

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