

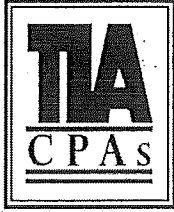
LEGAL RIGHTS CENTER, INC.

FINANCIAL STATEMENTS

December 31, 2015 and 2014

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THOMAS LEWIS & ASSOCIATES, P.A.
Certified Public Accountants

6700 France Avenue, Suite 116, Minneapolis, Minnesota 55435
952-835-1510, Fax: 952-835-9347

750 S. Plaza Dr., Suite 208, Mendota Heights, Minnesota 55120
651-690-5498, Fax: 952-835-9347

email: info@tlewiscpa.com
web-site: www.tlewiscpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LEGAL RIGHTS CENTER, INC.
Minneapolis, Minnesota

Introductory

We have audited the accompanying financial statements of LEGAL RIGHTS CENTER, INC. (a Minnesota tax-exempt corporation), which comprise the statement of financial position as of December 31, 2015, 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.

Auditor's 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 LEGAL RIGHTS CENTER, INC. as of December 31, 2015, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Thomas Lewis & Associates P.A.

THOMAS LEWIS & ASSOCIATES, P.A.
April 28, 2016

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LEGAL RIGHTS CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	Unrestricted			Totals	
	Unrestricted	Board Restricted	Temporarily Restricted	2015	2014
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 52,599	\$ 141,457	\$ 19,319	\$ 213,375	\$ 177,375
Accounts receivable	126,500	-	-	126,500	121,000
Prepaid expenses	3,617	-	-	3,617	3,475
Total Current Assets	182,716	141,457	19,319	343,492	301,850
PROPERTY AND EQUIPMENT - At Cost					
Land and building	300,000	-	-	300,000	300,000
Building improvements	404,980	-	-	404,980	404,980
Furniture and office equipment	198,832	-	-	198,832	198,206
	903,812	-	-	903,812	903,186
Less, accumulated depreciation	610,846	-	-	610,846	578,097
Net Property and Equipment	292,966	-	-	292,966	325,089
	\$ 475,682	\$ 141,457	\$ 19,319	\$ 636,458	\$ 626,939
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 7,555	\$ -	\$ -	\$ 7,555	\$ 2,424
Accrued expenses	828	-	-	828	856
Current portion of long-term debt	7,036	-	-	7,036	6,532
Total Current Liabilities	15,419	-	-	15,419	9,812
LONG-TERM LIABILITIES					
Notes payable	33,836	-	-	33,836	45,328
Total Liabilities	49,255	-	-	49,255	55,140
NET ASSETS	426,427	141,457	19,319	587,203	571,799
	\$ 475,682	\$ 141,457	\$ 19,319	\$ 636,458	\$ 626,939

See independent auditor's report and notes to financial statements.

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2015 and 2014

	Unrestricted	Temporarily Restricted	Totals	
			2015	2014
SUPPORT AND REVENUE				
Public Support:				
Corporations and Foundations	\$ 93,196	\$ 25,000	\$ 118,196	\$ 18,825
Law firms and Attorneys	18,341	-	18,341	34,985
In Kind donations	94,352	-	94,352	69,861
Total Public Support	205,889	25,000	230,889	123,671
Other Revenue:				
Government fees	37,743	-	37,743	39,833
Government fees - Minneapolis Public Schools	71,300	-	71,300	78,500
Government contract services	225	78,850	79,075	106,200
Government grants	500,500	-	500,500	484,000
Individual Donations	30,531	-	30,531	22,304
Other miscellaneous income	738	-	738	6,175
Interest income	20	-	20	22
Rental income	17,775	-	17,775	18,900
Total Other Revenue	658,832	78,850	737,682	755,934
Net Assets Released from Restrictions	95,200	(95,200)	-	-
Total Support and Revenue	959,921	8,650	968,571	879,605
EXPENSES				
Program Services:				
Community Defense Program	518,639	-	518,639	563,945
Youth: Education Advocacy & Restorative Services	288,009	-	288,009	273,860
	806,648	-	806,648	837,805
Supporting Services:				
Management and general	104,853	-	104,853	98,529
Fundraising	41,666	-	41,666	38,829
	146,519	-	146,519	137,358
Total Expenses	953,167	-	953,167	975,163
CHANGE IN NET ASSETS	6,754	8,650	15,404	(95,558)
NET ASSETS:				
Beginning of Year	561,130	10,669	571,799	667,357
End of Year	\$ 567,884	\$ 19,319	\$ 587,203	\$ 571,799

See independent auditor's report and notes to financial statements.

LEGAL RIGHTS CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015 with Comparative Totals for 2014

	Program Services		Supporting Activities		Totals			
	Community	Youth:Education	Management & General	Fund- Raising	2015		2014	
	Defense Program	Advocacy & Restorative Services			Amount	Percent of Total	Amount	Percent of Total
Salaries	\$ 345,713	\$ 129,118	\$ 77,620	\$ 35,000	\$ 587,451	61.6 %	\$ 613,396	62.9 %
Payroll Taxes & Benefits	95,719	24,430	15,879	2,878	138,706	14.6	129,491	13.3
Auto and Travel	7,378	2,635	621	-	10,634	1.1	11,174	1.1
Occupancy	6,625	3,047	1,019	388	11,079	1.2	13,839	1.4
Telephone	3,312	1,523	510	194	5,539	0.6	5,794	0.6
Office Supplies	2,967	1,364	456	174	4,961	0.5	3,960	0.4
Professional Licenses and Training	973	1,076	254	-	2,303	0.2	385	0.0
Library	690	-	-	-	690	0.1	675	0.1
Program Expenses	49	26	-	-	75	0.0	292	0.0
Postage and Printing	2,256	1,037	347	132	3,772	0.4	5,552	0.6
Meetings and Conferences	679	312	104	40	1,135	0.1	964	0.1
Insurance	9,274	4,265	1,427	543	15,509	1.6	14,980	1.5
Repairs and Maintenance	15,337	7,053	2,360	898	25,648	2.7	26,650	2.7
Miscellaneous Expense	841	387	129	49	1,406	0.1	2,606	0.3
Interest Expense	1,282	589	197	75	2,143	0.2	2,535	0.3
Contract Services	-	99,400	-	-	99,400	10.4	95,109	9.8
Professional Fees	5,960	2,741	917	349	9,967	1.0	7,729	0.8
Total Expenses Before Depreciation	499,055	279,003	101,840	40,520	920,418	96.6	935,131	95.9
Depreciation	19,584	9,006	3,013	1,146	32,749	3.4	40,032	4.1
Total Expenses	\$ 518,639	\$ 288,009	\$ 104,853	\$ 41,666	\$ 953,167	100.0 %	\$ 975,163	100.0 %
Percent of Total:	54.4%	30.2%	11.0%	4.4%	100.0%			

See independent auditor's report and notes to financial statements.

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,404	\$ (95,558)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	32,749	40,032
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Accounts receivable	(5,500)	1
Prepaid expenses	(142)	(493)
Increases (decreases) in:		
Accounts payable	5,131	(366)
Accrued expenses	(28)	(40)
	47,614	(56,424)
Net Cash Provided by (Used by) Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(626)	(8,587)
Net Cash Used by Investing Activities	(626)	(8,587)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(10,988)	(8,599)
Net Cash Used by Financing Activities	(10,988)	(8,599)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,000	(73,610)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	177,375	250,985
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 213,375	\$ 177,375
 SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:		
Interest paid	\$ 2,143	\$ 2,535

See independent auditor's report and notes to financial statements.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Legal Rights Center, Inc. (the "Organization", "LRC") was incorporated in 1970 in response to concerns of communities of color and the legal community that fundamental inequalities existed within the criminal justice system of Hennepin County.

Purpose

The Organization's mission is to provide the highest quality criminal defense and restorative justice services to low-income people, in particular people of color. Their focus is Hennepin County, their priority is juveniles, and their services are at no cost.

The Organization exists to provide equal access to justice -- through restorative services and in the criminal and juvenile courts -- and to redress the underlying factors that have already led, or could lead, to criminal or delinquent behavior. They do so in recognition that many individuals from historically oppressed communities face barriers not only from generational poverty but also a deep alienation from society. The Organization uses culturally-specific outreach, education, and advocacy, in correlation with legal and restorative methods, to proactively improve communities while responsively serving a wide range of individual needs.

The Organization's programs include the following:

The Community Defense Program (CDP) - This program provides free criminal defense representation services to low-income Hennepin residents. Attorneys are teamed with Community Advocates, the latter providing culturally-specific assistance to populations who may be challenged by systemic biases yet need problems solved and rights protected. The program includes community outreach and education about the law.

The Youth: Education, Advocacy & Restorative Services (Y:EARs) - This program provides representation in juvenile court, and neutrally facilitates Family Group Conferences (a strengths-based restorative practices method) in the aftermath of delinquency, truancy, or school behavioral problems (or a combination) as a positive alternative to ineffective punitive outcomes. From the vantage point of practicing across systems, the program's attorneys participate in many committees and networks, make presentations, and advocate for best practices. Prior to May 2015, court representation of juveniles for delinquency purposes was a component of the Community Defense Program.

Basis of Presentation

The financial statements have been prepared in conformity with the disclosure requirements of U.S. generally accepted accounting principles for not-for-profit organizations. Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes thereto are classified and reported as follows:

Unrestricted Net Assets - This classification contains net assets that are not subject to donor-imposed stipulations.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets – Includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization, with the passage of time.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Subsequent Events

Management has evaluated subsequent events through April 28, 2016, which is the date the financial statements were available to be issued.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and equivalents for the years ended December 31, 2015 and 2014 totaled \$213,375 and \$177,375, respectively.

Accounts Receivable

The Organization uses the direct write-off method for balances deemed uncollectible. There were no such write-offs for the years ended December 31, 2015 or 2014 and all accounts receivable are considered collectible by management.

Promises to Give

In accordance with the U.S. generally accepted accounting principles, promises to give are shown as revenues or gains in the statement of activities in the period in which the promise is received, with an offsetting receivable shown on the statement of financial position. At December 31, 2015 and 2014, promises to give were no promises to give.

Property and Equipment

Property and equipment are stated at cost. Contributed equipment is recorded at fair value at date of donation. Depreciation is provided through the use of straight-line method using the estimated useful lives of individual assets, typically 5 to 15 years.

The Organization expenses maintenance and repair expenditures and capitalizes major renewals and betterments. The organization removes capitalized costs and related accumulated depreciation from the accounts upon sale or other retirement of depreciable property and reports resulting gains or losses.

Unrestricted, Temporarily Restricted and Permanently Restricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. The Organization had no permanently restricted net assets at December 31, 2015 or 2014. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and then released from restriction.

Revenues

Donations, grants, contributions, and all other forms of revenue are considered unrestricted use unless specifically restricted by the donor or until a specific amount of time has passed. The Organization serves as a Lead Agent for the Juvenile Restorative Justice Collaborative. For the years ended 2015 and 2014, totals of \$79,075 and \$106,200 were collected of which \$85,000 and \$91,350 were paid out to 6 other agencies, respectively. The income is recorded on the statement of activities and the expense is recorded in the statement of functional expenses under contract services.

Donated Material and Services

Donated material and services are recorded as a contribution when received, at their fair market value, if significant and measurable.

Income Taxes

The Organization is considered a tax-exempt, nonprofit organization under Section 501 (c) (3) of the Internal Revenue Code and Minnesota Statute 290.05; therefore, there is no provision for income taxes. The Organization's open audit periods are the years ended December 31, 2012 through 2015.

The Organization has adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2015.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for tax return years prior to the year ended December 31, 2012.

The Organization's policy is to classify any income tax related interest and penalties in interest expense and other expenses, respectively.

NOTE B - NOTES PAYABLE

The Organization incurred two loans payable, through a program offered jointly by the City of Minneapolis and Bremer Bank, to cover the remaining costs of a sewer separation project required by the City of Minneapolis. As part of this program, the City of Minneapolis funds one loan at an

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE B - NOTES PAYABLE (Continued)

interest rate of 2% per annum, provided that another loan in the same amount is obtained through Bremer Bank. Both loans are secured by the cash, receivables, and personal property of the Organization and are administered by Bremer Bank. Both loans were refinanced in 2013 as part of a mortgage loan in the amount of \$70,000 from Bremer bank.

Details of 2013 Bremer Mortgage are as follows:

	<u>Total</u>	<u>Current</u>
Loan payable, Bremer Bank.		
Monthly payments \$727.59 including interest at 4.5% per annum, matures January 25, 2018, with a last payment of \$26,477.04, secured by the building.	\$40,872	\$7,036

Future maturities are as follows for the years ending December 31:

	Amount
2016	\$ 7,036
2017	7,359
2018	26,477
Total	\$ 40,872

NOTE C - COMMITMENTS AND CONTINGENCIES

Concentrations of Risk

The Organization provides legal and alternative dispute resolution services for minorities and the poor throughout Hennepin County, Minnesota. Accordingly, the Organization relies upon a significant amount of support from government agencies. In the year ended December 31, 2015, this support amounted to approximately 71% of total revenue and in 2014, 81%. Should the Organization not be able to provide the services expected by the government agencies, or should the agencies reduce their contributions, the financial operations of the Organization would be severely impacted.

The Organization maintains cash and savings accounts in a single financial institution. The Federal Deposit Insurance Corporation insures accounts up to \$250,000 at that institution. At December 31, 2015 and 2014, there were no balances in excess of this limit.