

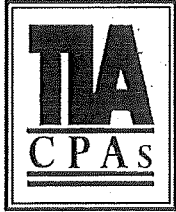
**LEGAL RIGHTS CENTER, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2016 and 2015**

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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 204, 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, 2016, 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, 2016, 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.

### *Report on Summarized Comparative Information*

We have previously audited the **LEGAL RIGHTS CENTER, INC.** 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Thomas Lewis & Associates P.A.*

THOMAS LEWIS & ASSOCIATES, P.A.

May 8, 2017



**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2016 and 2015

	Unrestricted			Totals	
	Unrestricted	Board Restricted	Temporarily Restricted	2016	2015
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 186,208	\$ 138,521	\$ 16,328	\$ 341,057	\$ 213,375
Accounts receivable	-	-	-	-	126,500
Prepaid expenses	6,393	-	-	6,393	3,617
Total Current Assets	<u>192,601</u>	<u>138,521</u>	<u>16,328</u>	<u>347,450</u>	<u>343,492</u>
<b>PROPERTY AND EQUIPMENT - At Cost</b>					
Land and building	300,000	-	-	300,000	300,000
Building improvements	414,118	-	-	414,118	404,980
Furniture and office equipment	201,481	-	-	201,481	198,832
	<u>915,599</u>	<u>-</u>	<u>-</u>	<u>915,599</u>	<u>903,812</u>
Less, accumulated depreciation	643,136	-	-	643,136	610,846
Net Property and Equipment	<u>272,463</u>	<u>-</u>	<u>-</u>	<u>272,463</u>	<u>292,966</u>
	<u>\$ 465,064</u>	<u>\$ 138,521</u>	<u>\$ 16,328</u>	<u>\$ 619,913</u>	<u>\$ 636,458</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 3,009	\$ -	\$ -	\$ 3,009	\$ 7,555
Accrued expenses	292	-	-	292	828
Current portion of long-term debt	7,584	-	-	7,584	7,036
Total Current Liabilities	<u>10,885</u>	<u>-</u>	<u>-</u>	<u>10,885</u>	<u>15,419</u>
<b>LONG-TERM LIABILITIES</b>					
Notes payable	21,376	-	-	21,376	33,836
Total Liabilities	<u>32,261</u>	<u>-</u>	<u>-</u>	<u>32,261</u>	<u>49,255</u>
<b>NET ASSETS</b>	<u>432,803</u>	<u>138,521</u>	<u>16,328</u>	<u>587,652</u>	<u>587,203</u>
	<u>\$ 465,064</u>	<u>\$ 138,521</u>	<u>\$ 16,328</u>	<u>\$ 619,913</u>	<u>\$ 636,458</u>

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

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
<b>SUPPORT AND REVENUE</b>				
Public Support:				
Corporations and Foundations	\$ 163,505	\$ -	\$ 163,505	\$ 118,196
Law firms and Attorneys	22,757	-	22,757	18,341
In Kind donations	87,140	-	87,140	94,352
Total Public Support	273,402	-	273,402	230,889
Other Revenue:				
Government fees	31,019	-	31,019	37,743
Government fees - Minneapolis Public Schools	52,000	-	52,000	71,300
Government contract services	-	90,450	90,450	79,075
Government grants	391,000	-	391,000	500,500
MN Department of Education Conference	-	27,920	27,920	-
Individual Donations	119,872	575	120,447	30,531
Other miscellaneous income	1,437	-	1,437	738
Interest income	26	-	26	20
Rental income	21,450	-	21,450	17,775
Total Other Revenue	616,804	118,945	735,749	737,682
Net Assets Released from Restrictions	121,936	(121,936)	-	-
Total Support and Revenue	1,012,142	(2,991)	1,009,151	968,571
<b>EXPENSES</b>				
Program Services:				
Community Defense Program	491,809	-	491,809	518,639
Youth: Education Advocacy & Restorative Services	368,599	-	368,599	288,009
	860,408	-	860,408	806,648
Supporting Services:				
Management and general	107,260	-	107,260	104,853
Fundraising	41,034	-	41,034	41,666
	148,294	-	148,294	146,519
Total Expenses	1,008,702	-	1,008,702	953,167
<b>CHANGE IN NET ASSETS</b>	3,440	(2,991)	449	15,404
<b>NET ASSETS:</b>				
Beginning of Year	567,884	19,319	587,203	571,799
End of Year	\$ 571,324	\$ 16,328	\$ 587,652	\$ 587,203

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

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2016 with Comparative Totals for 2015**

	Program Services			Supporting Activities			Totals		
	Community Defense Program	Youth: Education Advocacy & Restorative Services		Management & General	Fund- Raising	2016		2015	
		Restorative Services	Advocacy & Youth: Education			Amount	Percent of Total	Amount	Percent of Total
Salaries	\$ 344,931	\$ 178,814	\$ 35,000	\$ 82,051	\$ 35,000	\$ 640,796	63.5 %	\$ 587,451	61.6 %
Payroll Taxes & Benefits	75,068	25,645	2,677	15,922	2,677	119,312	11.8	138,706	14.6
Auto and Travel	10,560	3,408	-	78	-	14,046	1.4	10,634	1.1
Occupancy	5,703	4,059	329	878	329	10,969	1.1	11,079	1.2
Telephone	518	369	30	80	30	997	0.1	5,539	0.6
Office Supplies	2,219	1,580	128	342	128	4,269	0.4	4,961	0.5
Professional Licenses and Training	2,100	721	-	257	-	3,078	0.3	2,303	0.2
Library	970	-	-	-	-	970	0.1	690	0.1
Program Expenses	-	976	-	-	-	976	0.1	75	0.0
Postage and Printing	2,552	1,815	147	392	147	4,906	0.5	3,772	0.4
Meetings and Conferences	1,114	792	64	171	64	2,141	0.2	1,135	0.1
MN Department of Education Conference	-	14,436	-	-	-	14,436	1.4	-	-
Insurance	8,673	6,170	500	1,334	500	16,677	1.7	15,509	1.6
Repairs and Maintenance	12,028	8,559	694	1,851	694	23,132	2.3	25,648	2.7
Miscellaneous Expense	2,047	1,457	118	315	118	3,937	0.4	1,406	0.1
Interest Expense	841	599	49	130	49	1,619	0.2	2,143	0.2
Contract Services	-	103,200	-	-	-	103,200	10.2	99,400	10.4
Professional Fees	5,694	4,052	329	876	329	10,951	1.1	9,967	1.0
<b>Total Expenses</b>	<b>475,018</b>	<b>356,652</b>	<b>40,065</b>	<b>104,677</b>	<b>40,065</b>	<b>976,412</b>	<b>96.8</b>	<b>920,418</b>	<b>96.6</b>
Before Depreciation									
Depreciation	16,791	11,947	969	2,583	969	32,290	3.2	32,749	3.4
<b>Total Expenses</b>	<b>\$ 491,809</b>	<b>\$ 368,599</b>	<b>\$ 41,034</b>	<b>\$ 107,260</b>	<b>\$ 41,034</b>	<b>\$ 1,008,702</b>	<b>100.0 %</b>	<b>\$ 953,167</b>	<b>100.0 %</b>
<b>Percent of Total:</b>	<b>48.8%</b>	<b>36.5%</b>	<b>4.1%</b>	<b>10.6%</b>	<b>4.1%</b>	<b>100.0%</b>			

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

**LEGAL RIGHTS CENTER, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 449	\$ 15,404
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	32,290	32,749
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Accounts receivable	126,500	(5,500)
Prepaid expenses	(2,776)	(142)
Increases (decreases) in:		
Accounts payable	(4,546)	5,131
Accrued expenses	(536)	(28)
Net Cash Provided by (Used by) Operating Activities	151,381	47,614
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(11,787)	(626)
Net Cash Used by Investing Activities	(11,787)	(626)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(11,912)	(10,988)
Net Cash Used by Financing Activities	(11,912)	(10,988)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	127,682	36,000
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	213,375	177,375
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 341,057	\$ 213,375
 <b>SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:</b>		
Interest paid	\$ 1,619	\$ 2,143

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

**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**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, 2016 and 2015

**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 May 8, 2017, 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, 2016 and 2015 totaled \$341,057 and \$213,375, 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, 2016 or 2015 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, 2016 and 2015, there 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, 2016 or 2015. 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, 2016 and 2015

**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 2016 and 2015, totals of \$90,450 and \$79,075 were collected of which \$81,600 and \$85,000 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. Revenue received in January had been recorded as income for the prior year. This revenue is now being recorded in the proper period. For 2016 this change resulted in \$132,250 less in government grants revenue.

**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, 2013 through 2016.

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, 2016.

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, 2013.

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

**LEGAL RIGHTS CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016 and 2015

**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 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:

	Total	Current
Loan payable, Bremer Bank.		
Monthly payments \$727.59 including interest at 4.5% per annum, matures January 25, 2018, with a last payment of \$21,375.57, secured by the building.	\$28,960	\$7,584

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

	Amount
2017	\$ 7,584
2018	21,376
Total	\$28,960

**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, 2016, this support amounted to approximately 59% of total revenue and in 2015, 71%. 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 could 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, 2016 there was \$91,057 in excess of this limit and at December 31, 2015 there was no balance in excess of this limit. Management has not and does not expect to experience any losses on such accounts. In January 2017 the Organization eliminated this risk by setting up a sweep account to transfer funds to another bank once the balance reaches \$250,000.