

LEGAL RIGHTS CENTER, INC.

FINANCIAL STATEMENTS

December 31, 2018 and 2017

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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

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

750 S. Plaza Dr., Suite 204, Mendota Heights, Minnesota 55120
651-690-5498, Fax: 952-835-9347

1226 4th Avenue E, Suite 105, Shakopee, MN 55379
952-445-4458. Fax: 952-835-9347

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, 2018, 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, 2018, 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.** 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 7, 2018. In our 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.

Thomas Lewis & Associates P.A.

THOMAS LEWIS & ASSOCIATES, P.A.
May 10, 2019



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LEGAL RIGHTS CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 336,353	\$ 369,287
Prepaid expenses	3,892	3,821
Total Current Assets	340,245	373,108
PROPERTY AND EQUIPMENT - At Cost		
Artwork	5,985	5,985
Land and building	300,000	300,000
Building improvements	437,531	418,964
Furniture and office equipment	208,168	203,481
	951,684	928,430
Less, accumulated depreciation	687,293	665,761
Net Property and Equipment	264,391	262,669
	\$ 604,636	\$ 635,777
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,969	\$ 13,246
Accrued expenses	373	1,069
Current portion of long-term debt	-	16,488
Total Current Liabilities	4,342	30,803
NET ASSETS		
Without donor restrictions:		
Undesignated	356,432	413,781
Board designated	189,407	159,583
Total without donor restrictions	545,839	573,364
With donor restrictions	54,455	31,610
Total Net Assets	600,294	604,974
	\$ 604,636	\$ 635,777

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

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	Without Donor	With Donor	Totals	
	Restrictions	Restrictions	2018	2017
SUPPORT AND REVENUE				
Public Support:				
Corporations and Foundations	\$ 176,863	\$ 47,500	\$ 224,363	\$ 51,195
Law firms and Attorneys	16,533	-	16,533	19,450
In Kind donations	100,589	-	100,589	105,426
Fundraising income (net)	-	22,856	22,856	-
Total Public Support	293,985	70,356	364,341	176,071
Other Revenue:				
Government fees	121,451	-	121,451	151,376
Government contract services	-	80,008	80,008	72,250
Government grants	529,000	-	529,000	529,000
MN Department of Education Conference	-	62,892	62,892	42,763
Individual Donations	9,521	6,439	15,960	47,390
Other miscellaneous income	2,320	25	2,345	4,917
Interest income	414	-	414	344
Rental income	20,100	-	20,100	18,150
Total Other Revenue	682,806	149,364	832,170	866,190
Net Assets Released from Restrictions				
Satisfaction of program restrictions	196,875	(196,875)	-	-
Total Net Assets Released from Restrictions	196,875	(196,875)	-	-
Total Support and Revenue	1,173,666	22,845	1,196,511	1,042,261
EXPENSES				
Program Services:				
Community Defense Program	628,197	-	628,197	553,668
Youth: Education Advocacy & Restorative Services	423,135	-	423,135	333,332
	1,051,332	-	1,051,332	887,000
Supporting Services:				
Management and general	110,799	-	110,799	102,572
Fundraising	39,060	-	39,060	35,367
	149,859	-	149,859	137,939
Total Expenses	1,201,191	-	1,201,191	1,024,939
CHANGE IN NET ASSETS	(27,525)	22,845	(4,680)	17,322
NET ASSETS:				
Beginning of Year	573,364	31,610	604,974	587,652
End of Year	\$ 545,839	\$ 54,455	\$ 600,294	\$ 604,974

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

LEGAL RIGHTS CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018 with Comparative Totals for 2017

	Program Services		Supporting Activities		Totals			
	Community Defense Program	Youth:Education Advocacy & Restorative Services	Management & General	Fund- Raising	2018		2017	
					Amount	Percent of Total	Amount	Percent of Total
Salaries	\$ 458,065	\$ 190,477	\$ 84,012	\$ 29,982	\$ 762,536	63.5 %	\$ 677,219	66.1 %
Payroll Taxes & Benefits	96,730	40,305	17,734	6,449	161,218	13.4	126,433	12.3
Auto and Travel	8,655	3,783	112	-	12,550	1.0	11,202	1.1
Occupancy	7,885	4,214	1,155	340	13,594	1.1	12,208	1.2
Telephone	486	259	71	21	837	0.1	966	0.1
Office Supplies	3,320	1,774	487	143	5,724	0.5	3,569	0.3
Professional Licenses and Training	2,825	1,899	-	-	4,724	0.4	2,079	0.2
Library	911	-	-	-	911	0.1	841	0.1
Program Expenses	3	1,098	-	-	1,101	0.1	639	0.1
Postage and Printing	3,440	1,838	504	148	5,930	0.5	4,680	0.5
Meetings and Conferences	1,389	743	204	60	2,396	0.2	834	0.1
MN Department of Education Conference	-	36,983	-	-	36,983	3.1	22,964	2.24
Insurance	9,707	5,189	1,423	418	16,737	1.4	16,628	1.6
Repairs and Maintenance	14,478	7,739	2,122	624	24,963	2.1	21,177	2.1
Miscellaneous Expense	2,060	1,101	302	89	3,552	0.3	1,885	0.2
Interest Expense	37	20	5	2	64	0.0	1,059	0.1
Contract Services	-	115,983	-	-	115,983	9.7	86,800	8.5
Professional Fees	5,717	3,055	838	246	9,856	0.8	11,131	1.1
Total Expenses Before Depreciation	<u>615,708</u>	<u>416,460</u>	<u>108,969</u>	<u>38,522</u>	<u>1,179,659</u>	<u>98.2</u>	<u>1,002,314</u>	<u>97.8</u>
Depreciation	<u>12,489</u>	<u>6,675</u>	<u>1,830</u>	<u>538</u>	<u>21,532</u>	<u>1.8</u>	<u>22,625</u>	<u>2.2</u>
Total Expenses	<u>\$ 628,197</u>	<u>\$ 423,135</u>	<u>\$ 110,799</u>	<u>\$ 39,060</u>	<u>\$ 1,201,191</u>	<u>100.0 %</u>	<u>\$ 1,024,939</u>	<u>100.0 %</u>
Percent of Total:	<u>52.3%</u>	<u>35.2%</u>	<u>9.2%</u>	<u>3.3%</u>	<u>100.0%</u>			

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

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,680)	\$ 17,322
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	21,532	22,625
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Prepaid expenses	(71)	2,572
Increases (decreases) in:		
Accounts payable	(9,277)	10,237
Accrued expenses	(696)	777
	6,808	53,533
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(23,254)	(12,831)
Net Cash Used by Investing Activities	(23,254)	(12,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(16,488)	(12,472)
Net Cash Used by Financing Activities	(16,488)	(12,472)
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(32,934)	28,230
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	369,287	341,057
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 336,353	\$ 369,287
 SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:		
Interest paid	\$ 64	\$ 1,059

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

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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) – The Community Defense 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. Since the dissolution of the Council on Crime and Justice in 2016, the program has also integrated advocacy relating to criminal records and policies, and representation for expungements or to challenge licensing disqualifications.

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.

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.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program of supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Office, occupancy, meetings, insurance, depreciation, and general overhead expenses are allocated based on % of FTE assigned compared to total FTE. Salaries, taxes, benefits, travel, licenses-training are allocated based on the specific employee assignments. Program expenses are based on purpose of the expense.

Subsequent Events

Management has evaluated subsequent events through May 10, 2019, 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, 2018 and 2017 totaled \$336,353 and \$369,287, 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, 2018 or 2017 and all accounts receivable are considered collectible by management.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. At December 31, 2018 and 2017, 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.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Support

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Donations, grants, contributions, and all other forms of revenue are considered revenue without donor restrictions 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 2018 and 2017, totals of \$80,008 and \$72,250 were collected and \$72,583 and \$72,400 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, 2015 through 2018.

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, 2018.

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, 2015.

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

NOTE B – RESTRICTIONS ON NET ASSETS

Donor Restricted Net Assets

The Organization's net assets with donor restrictions are subject to the following purpose restrictions.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B – RESTRICTIONS ON NET ASSETS (Continued)

Subject to purpose restrictions:	<u>2018</u>	<u>2,017</u>
Doug Hall Memorial Fund	\$ 1,915	\$ 1,954
Jim Kreiger Memorial Fund	1,365	1,365
Margaret DuBois Memorial Fund	1,818	2,982
Timothy Dunn Memorial Fund	1,857	1,832
Y:EARs Program	<u>47,500</u>	<u>23,477</u>
Total net assets with donor restrictions	<u>\$ 54,455</u>	<u>\$ 31,610</u>

Board-designated Net Assets

Board-designated net assets are net assets without donor restrictions that are subject to self-imposed limits by action of the governing board. The Organization's net assets with board-designated restrictions are subject to the following purposes.

Subject to board designations:

	<u>2018</u>	<u>2017</u>
Board-Directed Reserve	\$ 80,000	\$ 80,000
U of M Residency	50,000	-
Building Fund	28,690	50,383
Technology Fund	10,574	8,976
Professional Development Fund	<u>20,143</u>	<u>20,224</u>
Total board-designated net assets	<u>\$ 189,407</u>	<u>\$ 159,583</u>

NOTE C - 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 were 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. In January 2018 the Organization paid off the Bremer mortgage in full.

NOTE D – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of donor-imposed restrictions within one year of December 31, 2018 and 2017. Amounts that are not available also include board-designated amounts that could be utilized if the Board of Directors approved the use.

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE D – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

	2018	2017
Financial assets at year-end	\$ 336,353	\$ 369,287
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(54,455)	(31,610)
Board designations:		
Amounts set aside for liquidity reserve	(80,000)	(80,000)
U of M Residency	(50,000)	-
Building Fund	(28,690)	(50,383)
Technology Fund	(10,574)	(8,976)
Professional Development Fund	(20,143)	(20,224)
Total board-designations	(189,407)	(159,583)
Financial assets available to meet cash needs for general expenditure within one year	\$ 92,491	\$ 178,094

NOTE E - 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, 2018, this support amounted to approximately 66% of total revenue and in 2017, 76%. 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.

Federal Deposit Insurance

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, 2017 and 2018, there was no amount in excess of the 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.