

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
(A NOT-FOR-PROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2018 AND 2017



Certified Public Accountants Business Consultants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
9220 Bass Lake Road, Suite #270
New Hope, MN 55428

Members of the Board:

We have audited the accompanying financial statements of Community Mediation & Restorative Services, Inc. (a not-for-profit corporation), which comprise the Statements of Financial Position as of December 31, 2018 and 2017, and the related Statements of Activities and Changes in Net Assets, Functional Expenses, 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.

Auditor's 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 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 Community Mediation & Restorative Services, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

A handwritten signature in black ink that reads 'LB Carlson, LLP'.

LB Carlson, LLP
Minneapolis, Minnesota

March 7, 2019

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	December 31,	
	2018	2017
CURRENT ASSETS		
Cash	\$ 87,397	\$ 82,151
Contracts Receivable	87,603	113,420
Pledges Receivable	11,486	1,147
Prepaid Expenses	16,982	17,750
Investments	10,363	10,343
Total Current Assets	213,831	224,811
PROPERTY AND EQUIPMENT		
Furniture and Equipment	31,325	30,026
Less: Accumulated Depreciation	29,138	28,333
Total Property and Equipment (At Depreciated Cost)	2,187	1,693
OTHER ASSETS		
Lease Deposit	1,888	1,888
Total Assets	\$ 217,906	\$ 228,392

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 7,063	\$ 14,847
Accrued Vacation	3,291	3,309
Deferred Revenue	950	1,594
Other Accrued Expenses	770	-
Total Current Liabilities	12,074	19,750
NET ASSETS		
Without Donor Restrictions	150,332	190,370
With Donor Restrictions	55,500	18,273
Total Net Assets	205,832	208,643
Total Liabilities and Net Assets	\$ 217,906	\$ 228,392

See accompanying Notes to Financial Statements.

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
				Total
REVENUE AND SUPPORT				
Contract Revenue	\$ 366,717	\$ -	\$ 342,531	\$ 342,531
Grant Revenue	2,682	121,000	3,588	28,588
Contributions	92,310	-	97,567	97,567
Fee Revenue	122,686	-	55,814	55,814
Investment Income	55	-	419	419
Net Assets Released from Restrictions	83,773	(83,773)	19,650	(19,650)
Total Support and Revenue	<u>668,223</u>	<u>37,227</u>	<u>519,569</u>	<u>524,919</u>
EXPENSES				
Program	651,051	-	498,958	498,958
Support Services:				
Management and General	50,540	-	43,063	43,063
Fund Raising	6,670	-	7,902	7,902
Total Support Services	<u>57,210</u>	<u>-</u>	<u>50,965</u>	<u>50,965</u>
Total Expenses	708,261	-	549,923	549,923
CHANGES IN NET ASSETS	(40,038)	37,227	(30,354)	(25,004)
NET ASSETS, BEGINNING OF YEAR	190,370	18,273	220,724	233,647
NET ASSETS, END OF YEAR	<u>\$ 150,332</u>	<u>\$ 55,500</u>	<u>\$ 190,370</u>	<u>\$ 208,643</u>

See accompanying Notes to Financial Statements.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017				
	Total Costs	Program Services	Management and General	Fundraising	Total Costs	Program Services	Management and General	Fundraising
Salaries	\$ 387,071	\$ 356,105	\$ 27,095	\$ 3,871	\$ 329,486	\$ 303,127	\$ 19,769	\$ 6,590
Payroll Taxes	28,384	26,113	1,987	284	22,545	20,291	1,804	451
Employee Benefits	7,360	6,771	515	74	7,175	6,458	574	144
In-Kind Expenses – AmeriCorps	64,844	64,844	-	-	78,550	78,550	-	-
Rent	24,211	21,790	2,421	-	23,969	21,571	2,397	-
Net Fiscal Agency Expense	99,618	99,618	-	-	12,183	12,183	-	-
Professional Fees	40,424	23,608	14,626	2,190	21,376	5,897	15,020	459
Training	18,943	17,996	947	-	18,839	17,897	942	-
Public Outreach	5,733	5,733	-	-	8,607	8,607	-	-
Volunteer Appreciation	3,067	3,067	-	-	1,798	1,798	-	-
Telephone and Internet	3,394	3,054	272	68	3,575	3,218	286	72
Insurance	4,224	3,590	634	-	3,014	2,562	452	-
Printing and Reproduction	1,247	1,122	100	25	2,168	1,950	173	43
Supplies	3,026	2,723	242	61	2,173	1,956	174	43
Depreciation Expense	803	723	64	16	739	665	59	15
Travel and Vehicle	5,459	4,913	546	-	8,103	7,293	810	-
Postage and Delivery	470	423	38	9	1,193	1,074	95	24
Dues and Subscriptions	6,078	5,470	608	-	620	558	62	-
Miscellaneous Expense	327	168	159	-	761	559	202	-
Equipment and Technology	3,578	3,220	286	72	3,049	2,744	244	61
Total Expenses	\$ 708,261	\$ 651,051	\$ 50,540	\$ 6,670	\$ 549,923	\$ 498,958	\$ 43,063	\$ 7,902

See accompanying Independent Auditor's Report.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31,	
	2018	2017
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (2,811)	\$ (25,004)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by (Used for) Operating Activities:		
Depreciation	804	739
Decrease (Increase) in Operating Assets:		
Contracts Receivable	25,817	(25,334)
Pledges Receivable	(10,339)	(547)
Prepaid Expenses	768	(1,145)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(7,784)	11,315
Accrued Vacation	(18)	178
Deferred Income	(644)	94
Other Accrued Expenses	770	-
Net Cash Provided by (Used for) Operating Activities	6,563	(39,704)
CASH USED FOR INVESTING ACTIVITIES		
Purchases of Property and Equipment	(1,297)	-
Increase in Investments	(20)	(7)
Net Cash Used for Investing Activities	(1,317)	(7)
NET INCREASE (DECREASE) IN CASH	5,246	(39,711)
CASH – BEGINNING	82,151	121,862
CASH – ENDING	\$ 87,397	\$ 82,151

See accompanying Notes to Financial Statements.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 ORGANIZATION

CMRS is a nonprofit organization funded by both public and private support, serving Hennepin County and, through its southeast Minnesota office, Rice County. The Charity Review Council considers CMRS a “most trusted” charity, having met all accountability standards.

Since 1983, Community Mediation & Restorative Services, Inc. (CMRS) has been dedicated to helping our community frame, prevent, and respond to conflict and harm. CMRS helps individuals move from conflict to resolution and from harm to healing through respectful and confidential mediation and restorative processes. We believe many of our community’s most pressing issues-- housing instability, youth conflict, community polarization -- stem from an unresolved dispute or offense. With the generous support of trained volunteer mediators and facilitators, and with partners in local communities, schools and courts, CMRS is systematically changing the way our community addresses conflict. Disputants are able to craft their own lasting solutions, those who commit and are impacted by harm are able to come together to right wrongs and restore community, and local communities are able to make better use of precious public resources.

CMRS services fall within four major categories. Collectively, CMRS staff and 140 volunteers handled 940 referrals to mediation and restorative practices involving 3,077 participants. In addition, CMRS provided training to 2,143 individuals.

1. Community-based Mediation Services – CMRS helps neighbors, consumers, families, employees, landlords and tenants and organizations to find mutually acceptable and lasting resolutions. In 2018 CMRS handled 160 community mediations involving adults. In addition, CMRS convenes and participates in community-wide conversations focused on our communities systems that shape the conversations in individual mediations.

2. Restorative Services for Youth and Schools – CMRS provides school-based restorative processes to help youth constructively navigate conflict and decision-making and to help schools implement a restorative approach to building positive school climate and repairing harm in the wake of incidents. In addition, CMRS provides local police, County Attorney’s office, and Juvenile Court with a community-based alternative designed to hold youth accountable to those impacted by their actions while also supporting youth in engaging positively with their community. With an expansion of services in schools in Hennepin and Rice Counties, CMRS managed 434 school and juvenile referrals.

3. Court-based Mediation Services – CMRS provides onsite court mediation services in Minnesota’s Third (Rice County) and Fourth (Hennepin County) Judicial District Courts. CMRS mediated 286 disputes between landlords and tenants (Housing Court), businesses and consumers (Conciliation Court) and between individuals seeking or challenging restraining orders (Harassment Court).

4. Training and Public Outreach – In 2018, CMRS hosted four events aimed at drawing the connection between big-picture issues and the conflicts our local communities are experiencing. CMRS provided mediation and restorative justice training to 3,077 adults and youth. In addition, through presentations, National Night Out activities, exhibits, and fairs CMRS increased awareness of dispute resolution services through direct outreach to over 5,000 individuals.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and are presented in accordance with the FASB Accounting Standards Codification (ASC) 958, "Not-for-Profit Entities". ASC 958 requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Assets accumulated and resources received and expended by the Organization are either unrestricted as to use or purpose or restricted by the donor for a particular purpose. Net assets with donor restrictions represent contributions to the Organization whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by expending the funds for their restricted purpose. The designation of net assets for specific purposes by the Organization itself does not constitute a basis for reclassifying them as donor restricted.

The Organization has chosen to report contributions that are received with donor-imposed restrictions that are met in the same reporting period as donor restricted contributions with an accompanying reclassification showing the satisfaction of the restriction. These reclassifications are included in net assets released from restrictions in the Statements of Activities and Changes in Net Assets.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The Organization places its temporary cash investments with one financial institution.

Cash Deposits

The Organization, at times, may maintain cash deposits with financial institutions in excess of FDIC insurance coverage which was \$250,000 as of December 31, 2018 and 2017.

Contracts Receivable

Contracts receivable consist of amounts owed to the Organization by local agencies and counties.

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding contracts receivable. The contracts receivable are stated net of allowance for doubtful accounts. No allowance for doubtful accounts was deemed necessary as of December 31, 2018 and 2017. It is the Organization's policy to charge off uncollectible contracts when management determines the receivable will not be collected.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at the net present value of expected cash flows. The Organization provides an allowance for estimated uncollectible contributions.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Pledges Receivable – Continued

Pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts and a present value discount. The Organization provides for losses on pledges and accounts receivable using the allowance method. The allowance is based on experience, third-party contacts, knowledge of the donors, the industry and other circumstances which may affect the ability of donors to meet their obligations. No allowance for doubtful accounts was deemed necessary as of December 31, 2018 and 2017. It is the Organization's policy to charge off uncollectible pledges when management determines the receivable will not be collected.

Equipment

Equipment is recorded at cost. Depreciation of equipment has been computed by the straight-line method over the useful lives of the assets. The estimated useful life for Furniture and Equipment is three to five years.

Renewals and betterments with a cost greater than \$1,000 that materially extend the life of an asset are capitalized. Minor equipment costs and repairs less than \$1,000 are charged to expense.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property, equipment and certain identifiable intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recovered. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. The Organization has determined that no impairment existed at December 31, 2018 and 2017.

Revenue Recognition

Revenues are recognized when earned. Revenue is generated by providing mediation and restorative services.

Contribution revenue is recognized when the Organization is notified of the existence of a pledge or receives a contribution. Contributions received and unconditional promises to give are recorded as without donor restrictions or donor restricted net assets depending on the existence and nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or an agreement with a third party. When a donor restriction expires by the passage of time or is fulfilled by the specific action by the Organization, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Donor restricted contributions of \$121,000 and \$25,000 were received for the years ended December 31, 2018 and 2017, respectively. Contributions and gift monies without donor restrictions of \$73,528 and \$101,155 were received for the years ended December 31, 2018 and 2017, respectively.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

In-Kind Donations

In-kind donations consist of services and materials and are measured at fair value at the date of donation. In-kind services represent services which meet the criteria specified in ASC 958 including, among other things, services requiring specialized skills and services that the Organization would typically purchase.

Income Tax Status

The Organization qualifies as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Organization is not subject to federal income taxes under Section 501(a) of the Code. The Organization is classified as a publicly-supported charitable organization under Section 509(a)(1) of the Code and contributions to the Organization qualify as a charitable tax deduction by the contributor.

The Organization evaluates all significant tax positions as required by generally accepted accounting principles in the United States. The Organization does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months.

The Organization's federal tax filings for 2015 through 2018 are open for Internal Revenue Service examination. The related state filings are open by the taxing authority of the State of Minnesota.

Advertising Costs

The Organization expenses advertising for marketing and employment as incurred. Advertising expense was zero during the years ended December 31, 2018 and 2017.

Use of 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 those estimates.

Significant items subject to such estimates and assumptions includes the allowance for doubtful accounts, useful lives of property and equipment, and allocation of functional expenses.

Functional Allocation of Expenses

The costs of providing the programs and supporting service activities have been allocated. Salaries and related costs are allocated between the program and supporting service categories based upon the estimated time expended by the employee in those categories. Other costs are allocated according to management's estimate or on a direct basis.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Functional Allocation of Expenses – Continued

The Organization had the following functional expenses for the years ended December 31, 2018 and 2017:

	2018		2017	
	Amount	%	Amount	%
Program Services	\$ 651,051	91.9	\$ 498,958	90.7
Management and General	50,540	7.1	43,063	7.8
Fund Raising	6,670	1.0	7,902	1.5
Total	<u>\$ 708,261</u>		<u>\$ 549,923</u>	

Reclassifications

Certain reclassifications have been made on the 2017 financial statements to conform to the 2018 presentation. The reclassifications have no effect on the changes in net assets or net assets as previously reported.

NOTE 3 LIQUIDITY MANAGEMENT

The Organization is primarily funded by contracts for services and state and foundations grants. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations as they become due. The organization does not have a line of credit.

The Organization's financial assets due within one year of the balance sheet date for general expenditures are as follows:

	December 31,	
	2018	2017
Cash and Cash Equivalents	\$ 87,397	\$ 82,151
Contracts Receivable	87,603	113,420
Pledges Receivable	11,486	1,147
Investments	10,363	10,343
Less: With Donor Restrictions	(55,000)	(18,273)
Total	<u>\$ 141,849</u>	<u>\$ 188,788</u>

NOTE 4 INVESTMENTS

Investments consist of money market securities held with a broker. Investments are classified as available-for-sale investments with unrealized gains and losses recognized in the current period.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions are unused assets that have donor/grantor imposed restrictions with them. Donor restricted net assets as of December 31, 2018 and 2017 consisted of the following:

	December 31,	
	2018	2017
Subject to Expenditure for Specific Purposes:		
Youthprise	\$ -	\$ 18,273
Family Housing Fund	19,750	-
Otto Bremer	35,000	-
MN Community Foundation	750	-
Total Net Assets with Donor Restrictions	\$ 55,500	\$ 18,273

NOTE 6 LEASE OBLIGATIONS

The Organization leases its administrative office space under a noncancelable operating lease that expires in December 31, 2021. The lease calls for a monthly base rent of \$1,880. Lease expense recognized from this lease was \$22,440 for the years ended December 31, 2018 and 2017.

The Organization leases office equipment under a noncancelable operating lease which expires in October 2022.

The Organization leased additional office space during 2018 under a month-to-month lease. The lease calls for monthly base rent of \$147.

Future minimum lease payments required under these leases are as follows:

Year Ending December 31,	Amount
2019	\$ 23,892
2020	23,892
2021	23,892
2022	1,110
Total	\$ 72,786

NOTE 7 CONCENTRATIONS OF RISK

The financial instrument which subjects the Organization to a concentration of credit risk is accounts receivable. The Organization grants credit without collateral to its clients, who are mostly local agencies and counties. Management believes its risk is limited.

COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through March 7, 2019, the date the financial statements were available to be issued.