

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

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

**DECEMBER 31, 2015 AND 2014**

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## INDEPENDENT AUDITOR'S REPORT

Board of Governors  
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, 2015 and 2014, and the related Statements of Activities and Changes in Net Assets, 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.

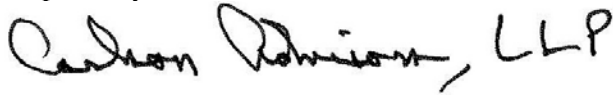
## ***Opinion***

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, 2015 and 2014, 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.

## ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the years ended December 31, 2015 and 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurances on it.

Respectfully submitted,

A handwritten signature in black ink that reads "Carlson Advisors, LLP". The signature is written in a cursive, flowing style.

CARLSON ADVISORS, LLP  
Minneapolis, Minnesota

March 4, 2016

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

**ASSETS**

	December 31,	
	2015	2014
<b>CURRENT ASSETS</b>		
Cash	\$ 120,241	\$ 67,826
Investments	10,335	10,383
Contracts Receivable	54,428	68,123
Pledges Receivable	3,264	1,398
Prepaid Expenses	11,825	11,324
Total Current Assets	200,093	159,054
<b>EQUIPMENT, AT COST</b>		
Furniture and Equipment	28,262	28,262
Less: Accumulated Depreciation	28,262	27,913
Total Property and Equipment (At Depreciated Cost)	-	349
<b>OTHER ASSETS</b>		
Lease Deposit	1,888	1,888
Total Assets	\$ 201,981	\$ 161,291

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 8,390	\$ 6,032
Accrued Vacation	2,650	1,687
Deferred Revenue	4,050	2,050
Total Current Liabilities	15,090	9,769
<b>NET ASSETS</b>		
Unrestricted	178,558	140,209
Temporarily Restricted	8,333	11,313
Total Net Assets	186,891	151,522
Total Liabilities and Net Assets	\$ 201,981	\$ 161,291

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, 2015 AND 2014**

	Year Ended December 31,					
	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
Contract Revenue	\$ 300,927	\$ -	\$ 300,927	\$ 290,167	\$ -	\$ 290,167
Grant Revenue	70,000	15,000	85,000	3,100	20,000	23,100
Contributions	50,413	-	50,413	57,452	-	57,452
Fee Revenue	18,194	-	18,194	6,248	-	6,248
Investment Income (Loss)	(16)	-	(16)	1,456	-	1,456
Net Assets Released from Restrictions	17,980	(17,980)	-	27,854	(27,854)	-
Total Support and Revenue	<u>457,498</u>	<u>(2,980)</u>	<u>454,518</u>	<u>386,277</u>	<u>(7,854)</u>	<u>378,423</u>
<b>OPERATING EXPENSES</b>						
Salaries	261,113	-	261,113	222,950	-	222,950
Payroll Taxes	17,390	-	17,390	13,224	-	13,224
Employee Benefits	5,953	-	5,953	4,661	-	4,661
In-Kind Expense	35,238	-	35,238	39,534	-	39,534
Rent	22,440	-	22,440	22,440	-	22,440
Fiscal Agency Expense	22,060	-	22,060	18,406	-	18,406
Professional Fees	15,245	-	15,245	16,540	-	16,540
Training	13,678	-	13,678	3,847	-	3,847
Public Outreach	4,779	-	4,779	417	-	417
Volunteer Appreciation	1,177	-	1,177	2,310	-	2,310
Telephone and Internet	3,099	-	3,099	3,265	-	3,265
Insurance	2,870	-	2,870	2,781	-	2,781
Printing and Reproduction	1,184	-	1,184	2,441	-	2,441
Supplies	2,034	-	2,034	2,278	-	2,278
Bad Debt	-	-	-	2,000	-	2,000
Depreciation Expense	349	-	349	927	-	927
Travel and Vehicle	5,115	-	5,115	1,981	-	1,981
Postage and Delivery	1,394	-	1,394	1,180	-	1,180
Dues and Subscriptions	1,198	-	1,198	1,231	-	1,231
Marketing	795	-	795	1,105	-	1,105
Miscellaneous Expense	572	-	572	317	-	317
Equipment and Technology	1,466	-	1,466	3,627	-	3,627
Total Expenses	<u>419,149</u>	<u>-</u>	<u>419,149</u>	<u>367,462</u>	<u>-</u>	<u>367,462</u>
<b>INCREASE (DECREASE)</b>						
<b>IN NET ASSETS</b>						
	38,349	(2,980)	35,369	18,815	(7,854)	10,961
<b>NET ASSETS, BEGINNING</b>						
<b>OF YEAR</b>						
	<u>140,209</u>	<u>11,313</u>	<u>151,522</u>	<u>121,394</u>	<u>19,167</u>	<u>140,561</u>
<b>NET ASSETS, END OF YEAR</b>						
	<u>\$ 178,558</u>	<u>\$ 8,333</u>	<u>\$ 186,891</u>	<u>\$ 140,209</u>	<u>\$ 11,313</u>	<u>\$ 151,522</u>

See accompanying Notes to Financial Statements.

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	Year Ended December 31,	
	2015	2014
<b>CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 35,369	\$ 10,961
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	349	927
Decrease (Increase) in Operating Assets:		
Contracts Receivable	13,695	(13,968)
Pledges Receivable	(1,866)	1,102
Prepaid Expenses	(501)	1,978
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	2,358	3,456
Accrued Vacation	963	(540)
Deferred Income	2,000	2,050
Net Cash Provided by Operating Activities	52,367	5,966
<b>CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>		
Decrease (Increase) in Investments	48	(1,250)
<b>NET INCREASE IN CASH</b>	52,415	4,716
<b>CASH – BEGINNING</b>	67,826	63,110
<b>CASH – ENDING</b>	\$ 120,241	\$ 67,826

See accompanying Notes to Financial Statements.

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1 ORGANIZATION**

Community Mediation & Restorative Services, Inc. (CMRS) (Organization) is a nonprofit organization that is dedicated to helping individuals move from conflict to resolution through a respectful, constructive, private and efficient mediation process. By recruiting and training volunteer mediators to act as neutral facilitators, the Organization works to cultivate common ground and create opportunity from conflict through community-based mediation, juvenile mediation, court-based mediation, and restorative justice and mediation training. CMRS is a nonprofit organization funded by both public and private support, serving Hennepin County. The work of CMRS and its volunteers and partners helps create safer and more harmonious neighborhoods and communities.

**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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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. Permanently restricted net assets account for donations restricted for specific purposes whereby the restriction does not expire. Temporarily restricted net assets 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 temporarily restricted.

The Organization records restricted contributions for which the restriction is met in the same reporting period as unrestricted contributions.

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, 2015 and 2014.



**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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 for the years ended December 31, 2015 and 2014. 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.

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 for the years ended December 31, 2015 and 2014. It is the Organization's policy to charge off uncollectible pledges when management determines the receivable will not be collected.

Contributions

Contribution revenue is recognized when the Organization is notified of the existence of a pledge or receives a contribution. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or 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 temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

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, 2015 and 2014.

Revenue Recognition

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

Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Temporarily restricted contributions of \$15,000 and \$20,000 were received for the years ended December 31, 2015 and 2014, respectively. Unrestricted contributions and gift monies of \$120,413 and \$60,552 were received for the years ended December 31, 2015 and 2014, respectively.

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 2012 through 2015 are open for Internal Revenue Service examination. The related state filings are open by the taxing authority of the State of Minnesota.

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

Advertising Costs

The Organization expenses advertising for marketing and employment as incurred. Advertising expense was \$795 and \$1,105 during the years ended December 31, 2015 and 2014, respectively.

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.

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.

Reclassifications

Certain reclassifications have been made on the 2014 financial statements to conform to the 2015 presentation. The reclassifications have no effect on the net income or retained earnings as previously reported.

**NOTE 3      INVESTMENTS**

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

**NOTE 4      FAIR VALUE MEASUREMENTS**

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS – Continued**

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> <li>◆ Quoted prices for similar assets or liabilities in active markets;</li> <li>◆ Quoted prices for identical or similar assets or liabilities in inactive markets;</li> <li>◆ Inputs other than quoted prices that are observable for the asset or liability;</li> <li>◆ Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> <p>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

*Money Market Fund:* Valued at fair value based on the net asset value (NAV) of the observable market prices of the underlying assets within that account, less liabilities.

*Equities:* Valued at fair value based on the net asset value (NAV) of the observable market prices of the underlying assets within that account, less liabilities.

The Organization had the following investments as of December 31, 2015 and 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 10,335	\$ -	\$ -	\$ 10,335
	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 1,358	\$ -	\$ -	\$ 1,358
Equities				
Health Care	6,498	-	-	6,498
Industrials	2,527	-	-	2,527
Total Equities	9,025	-	-	9,025
Total	\$ 10,383	\$ -	\$ -	\$ 10,383

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 5 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31, 2015 and 2014 consisted of the following:

	2015	2014
Youthprise	\$ 8,333	\$ 10,000
Bridge Fellowship	-	1,313
Total	\$ 8,333	\$ 11,313

**NOTE 6 LEASE OBLIGATIONS**

The Organization leases its administrative office space under a noncancelable operating lease that expires in December 2018. The lease calls for a monthly base rent of \$1,870. Lease expense recognized from this lease was \$22,440 for the years ended December 31, 2015 and 2014.

The Organization leases office equipment under a noncancelable operating lease which expires in May 2019.

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

Year Ending December 31,	Amount
2016	\$ 23,472
2017	23,472
2018	23,472
2019	430
Total	\$ 70,846

**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.

**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 4, 2016, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**COMMUNITY MEDIATION & RESTORATIVE SERVICES, INC.**  
**SCHEDULES OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015				2014			
	Total Costs	Program Services	Management and General	Fundraising	Total Costs	Program Services	Management and General	Fundraising
Salaries	\$ 261,113	\$ 227,169	\$ 28,722	\$ 5,222	\$ 222,950	\$ 193,966	\$ 24,525	\$ 4,459
Payroll Taxes	17,390	15,129	1,913	348	13,224	11,505	1,455	264
Employee Benefits	5,953	5,179	655	119	4,661	4,055	513	93
In-Kind Expenses – AmeriCorps	35,238	35,238	-	-	39,534	39,534	-	-
Rent	22,440	20,196	2,244	-	22,440	20,196	2,244	-
Fiscal Agency Expense	22,060	22,060	-	-	18,406	18,406	-	-
Professional Fees	15,245	1,536	13,380	329	16,540	2,737	13,286	517
Training	13,678	12,994	684	-	3,847	1,923	1,924	-
Public Outreach	4,779	4,779	-	-	417	417	-	-
Volunteer Appreciation	1,177	1,177	-	-	2,310	2,310	-	-
Telephone and Internet	3,099	2,789	155	155	3,265	2,939	163	163
Insurance	2,870	2,296	574	-	2,781	2,225	556	-
Printing and Reproduction	1,184	1,007	118	59	2,441	2,075	244	122
Supplies	2,034	1,729	203	102	2,278	1,936	228	114
Bad Debt	-	-	-	-	2,000	2,000	-	-
Depreciation Expense	349	297	35	17	927	788	93	46
Travel and Vehicle	5,115	4,348	767	-	1,981	1,684	297	-
Postage and Delivery	1,394	1,185	139	70	1,180	1,003	118	59
Dues and Subscriptions	1,198	1,198	-	-	1,231	1,231	-	-
Marketing	795	-	795	-	1,105	-	1,105	-
Miscellaneous Expense	572	-	86	486	317	-	234	83
Equipment and Technology	1,466	1,246	147	73	3,627	3,083	363	181
<b>Total Expenses</b>	<b>\$ 419,149</b>	<b>\$ 361,552</b>	<b>\$ 50,617</b>	<b>\$ 6,980</b>	<b>\$ 367,462</b>	<b>\$ 314,013</b>	<b>\$ 47,348</b>	<b>\$ 6,101</b>