
LEGAL ACTION CENTER

Financial Statements
(Together with Independent Auditors' Report)

Years Ended March 31, 2006 and 2005



Marks Paneth
& Shron_{LLP}

*Certified Public Accountants
and Consultants*

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED MARCH 31, 2006 AND 2005

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Legal Action Center of the City of New York, Inc.

We have audited the accompanying statements of financial position of the Legal Action Center of the City of New York, Inc. (the "Agency") as of March 31, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Legal Action Center of the City of New York, Inc. as of March 31, 2006 and 2005, 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.

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June 13, 2006

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LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents (Notes 2B and 10)	\$ 363,725	\$ 111,121
Accounts receivable (Notes 2D and 4)	546,784	709,371
Assets of discontinued operations (Note 9)	-	399,353
Other assets (Note 2E)	53,496	56,453
Property and equipment, net (Notes 2F, 2G and 3)	582,231	36,415
Cash-restricted (Note 7B)	153,209	-
TOTAL ASSETS	\$ 1,699,445	\$ 1,312,713
LIABILITIES		
Accounts payable and accrued expenses	\$ 294,663	\$ 363,174
Accrued vacation	89,547	90,681
Bank line of credit payable (Note 6)	163,421	60,000
Deferred revenue and other liabilities (Note 2K)	147,076	18,262
Deferred rent (Note 2J)	81,805	-
TOTAL LIABILITIES	\$ 776,512	\$ 532,117
COMMITMENTS (Note 7)		
NET ASSETS		
Unrestricted (Deficit)	594,134	(114,627)
Temporarily restricted (Note 2C)	328,799	895,223
TOTAL NET ASSETS	922,933	780,596
TOTAL LIABILITIES AND NET ASSETS	\$ 1,699,445	\$ 1,312,713

The accompanying notes are an integral part of these financial statements.

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	For the Year Ended March 31, 2006		For the Year Ended March 31, 2005	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT AND REVENUE:				
Public support				
Contributions and special events (Note 2G)	\$ 759,344	\$ -	\$ 82,272	\$ -
Grants	237,000	325,427	170,588	732,540
Net assets released from restrictions (Note 2C)	795,399	(795,399)	1,103,844	(1,103,844)
Total public support	1,791,743	(469,972)	1,356,704	(371,304)
Governmental support				
Government contracts (Note 8)	1,279,925	-	1,344,278	-
Revenue	97,799	-	138,400	-
Publications, newsletters and consultations	653,121	-	130,482	-
Member fees and miscellaneous	750,920	-	268,882	-
Total revenue	3,822,588	(469,972)	2,969,864	(371,304)
TOTAL SUPPORT AND REVENUE				
	2,300,188	-	2,117,078	-
	428,008	-	300,598	-
	32,730	-	28,992	-
TOTAL EXPENSES	2,760,926	-	2,446,668	-
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	1,061,662	(469,972)	523,196	(371,304)
DISCONTINUED OPERATIONS:				
(Decrease) increase in net assets from operations of discontinued Faces of Voices of Recovery - (including loss on disposal of \$27,073 in 2006) (Note 9)	(449,353)	-	(374,616)	390,000
Net assets released from restrictions (Note 2C)	96,452	(96,452)	-	-
CHANGE IN NET ASSETS FROM DISCONTINUED OPERATIONS	(352,901)	(96,452)	(374,616)	390,000
CHANGE IN NET ASSETS	708,761	(566,424)	148,580	18,696
Net Assets (Deficit) - Beginning of Year	(114,627)	895,223	(263,207)	876,527
NET ASSETS (DEFICIT) - END OF YEAR	\$ 594,134	\$ 328,799	\$ (114,627)	\$ 895,223
				\$ 82,272
				903,128
				965,400
				1,344,278
				138,400
				130,482
				268,882
				2,598,560
				2,117,078
				300,598
				28,992
				2,446,668
				151,892
				15,384
				15,384
				167,276
				613,320
				780,596
				\$ 780,596

The accompanying notes are an integral part of these financial statements.

**LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED MARCH 31, 2006 AND 2005**

	For the Year Ended March 31, 2006			For the Year Ended March 31, 2005				
	Program Services	Management & General	Fund Raising	TOTAL 2006	Program Services	Management & General	Fund Raising	TOTAL 2005
Payroll	\$ 1,236,843	\$ 164,278	\$ 12,037	\$ 1,413,158	\$ 1,152,016	\$ 148,723	\$ 11,263	\$ 1,312,002
Fringe benefits and payroll taxes (Note 5)	347,374	52,224	3,222	402,820	297,233	29,097	2,773	329,103
Temporary help	703	354	201	1,258	10,397	610	611	11,618
Total salaries and related costs	1,584,920	216,856	15,460	1,817,236	1,459,646	178,430	14,647	1,652,723
Professional services	260,648	34,830	8,500	303,978	174,755	15,542	3,000	193,297
Travel, lodging and meals	44,198	4,154	7,149	55,501	33,730	4,630	-	38,360
Occupancy (Note 7)	197,941	45,271	-	243,212	190,184	20,073	-	210,257
Supplies	19,030	3,564	132	22,726	21,250	1,465	1,603	24,318
Telephone	32,874	7,628	-	40,502	26,810	3,926	-	30,736
Postage and delivery	14,438	3,796	1,489	19,723	25,530	3,787	2,207	31,524
Insurance	15,536	3,411	-	18,947	15,273	2,587	-	17,860
Office maintenance	15,299	3,359	-	18,658	11,791	2,211	-	14,002
Library maintenance	26,597	3,301	-	29,898	19,000	3,270	-	22,270
Publications, videos and printing	53,353	9,533	-	62,886	77,534	6,221	5,271	89,026
Conferences and dues	4,893	3,401	-	8,294	14,123	1,003	-	15,126
Equipment rental and service (Note 7)	12,514	4,253	-	16,767	22,743	3,528	-	26,271
Interest	-	22,919	-	22,919	3,232	18,038	-	21,270
Depreciation and amortization	10,953	12,057	-	23,010	17,335	2,040	1,020	20,395
Bad debts	-	34,692	-	34,692	-	17,923	-	17,923
Miscellaneous	6,994	14,983	-	21,977	4,142	15,924	1,244	21,310
TOTAL EXPENSES - Continued Operations	2,300,188	428,008	32,730	2,760,926	2,117,078	300,598	28,992	2,446,668
Add: Expenses of discontinued operations - Faces and Voices of Recovery (including loss on disposal of \$27,073) (Notes 21 and 9)	424,898	32,364	-	457,262	462,708	-	-	462,708
TOTAL EXPENSES	\$ 2,725,086	\$ 460,372	\$ 32,730	\$ 3,218,188	\$ 2,579,786	\$ 300,598	\$ 28,992	\$ 2,909,376

The accompanying notes are an integral part of these financial statements.

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 142,337	\$ 167,276
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	34,692	17,923
Loss on disposal of property and equipment	10,431	-
Depreciation and amortization	23,010	20,395
Contributed assets	(454,300)	-
Subtotal	(243,830)	205,594
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Accounts receivable	127,895	385,083
Assets of discontinued operations	399,353	(399,353)
Security deposits and other assets	2,957	22,943
Cash-restricted	(153,209)	-
(Decrease) or increase in liabilities:		
Accounts payable and accrued expenses	(68,511)	120,467
Accrued vacation	(1,134)	(22,675)
Deferred revenue and other liabilities	128,814	(42,090)
Deferred rent	81,805	-
Net Cash Provided by Operating Activities	274,140	269,969
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(124,957)	-
Net Cash Used by Investing Activities	(124,957)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	367,264	246,417
Principal repayments of notes payable	(263,843)	(422,389)
Net Cash Provided (Used) by Financing Activities	103,421	(175,972)
NET INCREASE IN CASH AND CASH EQUIVALENTS	252,604	93,997
Cash and cash equivalents - beginning of year	111,121	17,124
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 363,725	\$ 111,121
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 22,919	\$ 21,270
Non Cash Investing activities		
Contributed assets	\$ 454,300	\$ -

The accompanying notes are an integral part of these financial statements.

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

The Legal Action Center of the City of New York, Inc. (the "Agency") is organized under the Not-for-Profit Corporation Law of the State of New York. The Agency has been granted exemption from Federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. The Agency provides free legal assistance to individuals and groups suffering legal injustices by reason of a history of alcohol or drug abuse, AIDS, arrest or conviction, or violation of their human or civil rights, and otherwise to serve the interests of the community and improve the administration of justice. For three decades, the Agency has worked to combat the stigma and prejudice that keep these individuals out of the mainstream of society. The Agency is committed to helping people reclaim their lives, maintain their dignity, and participate fully in society as productive, responsible citizens. The Agency also conducts research into the operation of various public and private institutions and the impact of various laws, regulations, policies, and practices on the community, with particular reference to the administration of justice, and may publish the results of such research. As of the close of business on June 30, 2005, the Agency discontinued one of its divisions, called the Faces and Voices of Recovery ("FAVOR"), which was spun off to a separate Board of Directors.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Agency prepares its financial statements using the accrual basis of accounting.
- B. Cash and cash equivalents consists of all highly liquid instruments purchased with maturities of 90 days or less.
- C. The Agency reports gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets, in which case they are reported as temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time 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. However, if a restriction is fulfilled in the same time period in which the gift is received, the Agency reports the support as unrestricted. The unrestricted net assets are resources available for support of the Agency's operations over which the Board has discretionary control.

The Agency's temporarily restricted net assets represent grants received with donor stipulations that the assets be used for various program services. Net assets were released from donor restrictions during the years ended March 31, 2006 and 2005 by incurring qualified expenses for program services.

- D. The Agency determines whether an allowance for uncollectibles should be provided for accounts receivable. Such estimates are based on management's assessment of the aged basis of its government funding sources, current economic conditions, creditworthiness of funders and customers and historical information. As of March 31, 2006 and 2005, the Agency determined that no allowance for uncollectibles was necessary.
- E. Other assets include inventory amounting to \$6,987 and \$15,042 as of March 31, 2006 and March 31, 2005, respectively, consisting of books, publications and training videos. Such inventory is stated at the lower of cost or market using the first-in, first-out method.
- F. Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable value. The Agency capitalizes all property and equipment with a useful life of more than one year and a cost of at least \$1,000 for the year ended March 31, 2006. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is less.
- G. The Agency records contributed goods and services at their fair value on the date received. For the years ended March 31, 2006 and 2005, the Agency received donated property and equipment valued at \$454,300 and \$0, respectively, and services valued at \$10,328 and \$0, respectively.

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- H. 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 at the date of the financial statements. Actual results could differ from the estimates.
- I. In June 2005, the Agency adopted a plan to discontinue the operations of a division, called Faces of Voices of Recovery, effective June 30, 2005. This division was spun off to a separate Board of Directors. The decrease in net assets from the operation and disposal of this division amounted to \$449,353 and \$27,073, respectively, and is recorded in the current year as discontinued operations.
- J. The Agency leases real property under an operating lease expiring in November 2015. For the years ended March 31, 2006 and 2005, the Agency recorded an adjustment to rent expense to reflect its straight-lining policy that amounted to \$81,805 and \$0, respectively. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying statements of financial position.
- K. Deferred revenue results from government contract advances that will be recognized as revenue as contract conditions are met.
- L. Certain line items in the fiscal 2005 financial statements were reclassified to conform to the fiscal 2006 presentation.

NOTE 3 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of March 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	Estimated Useful Lives
Furniture and equipment	\$ 160,135	\$ 108,117	5-7 years
Leasehold improvements	<u>469,300</u>	<u>7,500</u>	10 years
Total cost	629,435	115,617	
Less: accumulated depreciation	<u>47,204</u>	<u>79,202</u>	
Net Book Value	<u>\$ 582,231</u>	<u>\$ 36,415</u>	

NOTE 4 — ACCOUNTS RECEIVABLE

Accounts receivable consists of the following as of March 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Governmental contracts		
NYS Office of Alcoholism and Substance Abuse Services	\$ 67,884	\$ 60,971
NYS Division of Probation and Correctional Alternatives	113,497	154,195
NYS Department of Health – AIDS Institute	26,829	54,020
New York City Council	20,592	20,583
NYS Division of Criminal Justice Services	98,250	-
National Institute on Drug Abuse	-	34,533
Medical and Health Research Association of New York City – HIV Care	13,847	26,682
Substance Abuse and Mental Health Administration - ABT Associates	12,725	9,200
CRP, Inc.	<u>41,048</u>	<u>123,606</u>
	<u>394,672</u>	<u>483,790</u>

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005

NOTE 4 — ACCOUNTS RECEIVABLE (Continued)

Contributions and grants		
Foundations	\$ 114,292	\$ 552,250
United Way	-	5,000
	<u>114,292</u>	<u>557,250</u>
Other	<u>37,820</u>	<u>33,706</u>
Total	<u>\$ 546,784</u>	<u>\$ 1,074,746</u>

NOTE 5 — PENSION PLAN

The Agency maintains a pension plan under IRC Section 403(b) for all employees who work at least 1000 hours annually. The Agency contributes an amount equal to 3% of annual compensation of eligible employees. In addition, beginning in January 2002, the Agency instituted a 50% match (up to 1.5% of the employees' salary) of its employees' voluntary contributions to the plan. Accordingly, the Agency's retirement contribution ranges from 3% to 4.5%. During the period October 2003 to March 2005, the Agency suspended contributions to the plan. Effective April 2005, the Agency resumed contributions to the plan. Retirement expense amounted to \$39,532 and \$0 for the years ended March 31, 2006 and 2005, respectively.

NOTE 6 — BANK LINE OF CREDIT PAYABLE

The Agency has a line of credit with a financial institution for \$300,000, which bears interest at prime plus .5% (resulting in a rate of 8.25% as of March 31, 2006) and is secured by the assets of the Agency. This line of credit expires October 1, 2006 and can be renewed annually. As of March 31, 2006 and 2005, the line of credit balance amounted to \$163,421 and \$60,000, respectively. The amount outstanding as of June 13, 2006 was \$291,421.

NOTE 7 — COMMITMENTS

- A. The Agency is obligated, pursuant to several operating lease agreements, to approximate minimum future annual rentals for the five years ended after March 31, 2006 as indicated below:

	<u>Total</u>	<u>Real Property</u>	<u>Equipment</u>
2007	\$ 230,000	\$ 218,000	\$ 12,000
2008	212,000	203,000	9,000
2009	213,500	212,000	1,500
2010	223,500	222,000	1,500
2011	239,000	239,000	-
2012 and thereafter	<u>1,175,000</u>	<u>1,175,000</u>	<u>-</u>
	<u>\$ 2,293,000</u>	<u>\$ 2,269,000</u>	<u>\$ 24,000</u>

Real property rent and equipment lease expense for the years ended March 31, 2006 and 2005 amounted to \$232,000 and \$212,930, and \$16,767 and \$26,525, respectively.

- B. The Agency has a letter of credit of \$152,981 outstanding as of March 31, 2006. The letter of credit, which is secured by cash-restricted, serves primarily as security in connection with a real property lease.

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005

NOTE 8 — GOVERNMENT CONTRACTS

The Agency receives support from various government agencies to carry out program services pursuant to contract guidelines. Contract totals and expiration dates are indicated below:

<u>Agency</u>	<u>Amount of Contract</u>	<u>Expiration</u>
State of NY Division of Probation & Correctional Alternatives	\$ 98,503	June 30, 2006
State of NY Office of Alcoholism & Substance Abuse Services	349,256	June 30, 2006
New York State AIDS Institute	225,000	December 31, 2006
Federal Substance Abuse and Mental Health Administration – JBS	21,600	August 1, 2006
Federal Substance Abuse and Mental Health Administration - CRP	290,204	December 31, 2006
The City of New York – Office of the Criminal Justice Coordinator	80,000	June 30, 2006
Federal Substance Abuse and Mental Health Administration - ABT	172,225	September 07, 2006
National Institute on Drug Abuse	99,900	October 31, 2006

Management expects to reapply for such grant funds to continue these programs upon expiration of the contracts. In addition, certain costs billed to these governmental agencies are subject to random audit. Based on past audits, it is management's opinion that there are no material discrepancies between allowable contract costs and costs actually billed.

NOTE 9 — DISCONTINUED OPERATIONS

Effective June 30, 2005, the Agency discontinued the operation of a division called the Faces and Voices of Recovery ("FAVOR"). The Agency was acting as the fiscal conduit of FAVOR which was spun off to its Board of Directors. The income and related expenses related to FAVOR for the years ended March 31, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Income:		
Individual contributions	\$ 5,350	\$ 20,775
Foundation grants	-	390,000
Federal contracts	-	49,550
Trainings	-	2,924
Other	<u>2,559</u>	<u>14,843</u>
Total Income	<u>7,909</u>	<u>478,092</u>

LEGAL ACTION CENTER OF THE CITY OF NEW YORK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005

NOTE 9 — DISCONTINUED OPERATIONS (Continued)

Expenses:		
Salaries and wages	\$ 27,882	\$ 125,668
Payroll taxes and benefits	6,062	24,649
Professional services	44,772	213,978
Travel/lodging/meals	18,896	40,155
Occupancy	3,585	14,158
Supplies	510	7,754
Telephone	1,881	3,932
Postage/delivery	2,247	12,622
Library maintenance	236	-
Publications/printing	938	16,395
Miscellaneous	7,805	3,397
Reduction of accounts receivable	315,375	-
Distribution of unspent funds	<u>27,073</u>	<u>-</u>
 Total Expenses	 <u>457,262</u>	 <u>462,708</u>
 (Decrease) Increase in Net Assets	 <u>\$ (449,353)</u>	 <u>\$ 15,384</u>

The loss on the disposal of FAVOR amounted to \$27,073 for the year ended March 31, 2006 and is included in the decrease in net assets from discontinued operations. The loss on disposal consists of distribution of unspent funds to FAVOR. At the time of spin off, cash of \$27,073 was on hand related to FAVOR awards and grants. Such amount, which was previously reported as income, was distributed to the new, stand alone FAVOR to fulfill its outstanding obligations under those awards and grants. In addition, accounts receivable related to FAVOR awards and grants which was previously reported as income, were written down as an increase to expenses.

Assets of discontinued operations amounted to \$0 and \$399,353 as of March 31, 2006 and 2005, respectively. They are primarily accounts receivable.

NOTE 10—CONCENTRATIONS

Financial instruments that potentially subject the Agency to a concentration of credit risk include cash accounts with three major New York financial institutions that exceeded the FDIC insurance limits (\$100,000) by approximately \$357,000 and \$0, as of March 31, 2006 and 2005, respectively. Such amounts include outstanding checks. Management believes that credit risk related to these accounts is minimal.