

LEGAL RIGHTS CENTER, INC.

FINANCIAL STATEMENTS

December 31, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LEGAL RIGHTS CENTER, INC.
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of **LEGAL RIGHTS CENTER, INC.** (a Minnesota tax-exempt corporation) as of December 31, 2010 and 2009 and the related statements of activities, statements of functional expenses and statements of cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 **LEGAL RIGHTS CENTER, INC.**, as of December 31, 2010 and 2009 and the changes in its net assets, its functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Thomas Lewis & Associates, P.A.

THOMAS LEWIS & ASSOCIATES, P.A.

April 28, 2011



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LEGAL RIGHTS CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 145,468	\$ 40,230	\$ 185,698	\$ 145,126
Promises to give	-	-	-	62,000
Accounts receivable	117,225	-	117,225	122,922
Prepaid expenses	3,413	-	3,413	3,372
Total Current Assets	<u>266,106</u>	<u>40,230</u>	<u>306,336</u>	<u>333,420</u>
PROPERTY AND EQUIPMENT - At Cost				
Land and building	300,000	-	300,000	300,000
Building improvements	358,764	-	358,764	357,379
Furniture and office equipment	164,103	-	164,103	164,103
	<u>822,867</u>	<u>-</u>	<u>822,867</u>	<u>821,482</u>
Less, accumulated depreciation	459,786	-	459,786	436,592
Net Property and Equipment	<u>363,081</u>	<u>-</u>	<u>363,081</u>	<u>384,890</u>
	<u>\$ 629,187</u>	<u>\$ 40,230</u>	<u>\$ 669,417</u>	<u>\$ 718,310</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 2,567	\$ -	\$ 2,567	\$ 1,714
Accrued expenses	5,348	-	5,348	3,799
Current portion of long-term debt	6,013	-	6,013	9,755
Total Current Liabilities	<u>13,928</u>	<u>-</u>	<u>13,928</u>	<u>15,268</u>
LONG-TERM LIABILITIES				
Notes payable	20,453	-	20,453	26,466
Total Long-Term Liabilities	<u>20,453</u>	<u>-</u>	<u>20,453</u>	<u>26,466</u>
NET ASSETS	<u>594,806</u>	<u>40,230</u>	<u>635,036</u>	<u>676,576</u>
	<u>\$ 629,187</u>	<u>\$ 40,230</u>	<u>\$ 669,417</u>	<u>\$ 718,310</u>

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

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2010 and 2009

	Unrestricted	Temporarily Restricted	Totals	
			2010	2009
SUPPORT AND REVENUE				
Public Support:				
Corporations and Foundations	\$ 31,000	\$ 35,000	\$ 66,000	\$ 73,500
Programs - Fiscal Agent	(30,000)	-	(30,000)	30,000
Law firms and Attorneys	45,750	-	45,750	50,846
United Way	38,168	-	38,168	62,022
In Kind donations	45,042	-	45,042	48,649
Total Public Support	129,960	35,000	164,960	265,017
Other Revenue:				
Government fees	22,290	-	22,290	32,627
Government grants	522,216	-	522,216	473,250
Individual Donations	26,668	-	26,668	17,786
Other miscellaneous income	19,374	-	19,374	33,065
Interest income	416	-	416	1,072
Rental income	19,000	-	19,000	17,960
Total Other Revenue	609,964	-	609,964	575,760
Net Assets Released from Restrictions	61,500	(61,500)	-	-
Total Support and Revenue	801,424	(26,500)	774,924	840,777
EXPENSES				
Program Services:				
Legal defense and education	480,345	-	480,345	520,072
Family & youth restorative services	182,311	-	182,311	116,069
Education	-	-	-	41,382
	662,656	-	662,656	677,523
Supporting Services:				
Management and general	112,172	-	112,172	130,495
Fund raising	41,636	-	41,636	28,681
	153,808	-	153,808	159,176
Total Expenses	816,464	-	816,464	836,699
CHANGE IN NET ASSETS	(15,040)	(26,500)	(41,540)	4,078
NET ASSETS:				
Beginning of Year	609,846	66,730	676,576	672,498
End of Year	\$ 594,806	\$ 40,230	\$ 635,036	\$ 676,576

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

LEGAL RIGHTS CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010 with Comparative Totals for 2009

	Program Services		Supporting Activities		Totals	
	Legal Defense and Education	Family & Youth Restorative Services	Management & General	Fund- Raising	2010	2009
Salaries	\$ 321,113	\$ 110,960	\$ 70,157	\$ 29,063	\$ 531,293	\$ 553,913
Payroll Taxes & Benefits	86,142	39,524	28,997	8,575	163,238	160,387
Auto and Travel	8,504	352	757	-	9,613	9,503
Occupancy	7,693	2,992	1,527	509	12,721	13,213
Telephone	3,630	1,411	720	240	6,001	6,324
Office Supplies	2,287	890	454	151	3,782	6,048
Professional Development	1,345	675	265	-	2,285	1,936
Library	1,169	-	-	-	1,169	2,599
Program Expenses	559	675	-	-	1,234	2,223
Postage and Printing	1,131	440	224	75	1,870	3,136
Meetings and Conferences	915	356	181	60	1,512	2,665
Insurance	8,006	3,113	1,588	529	13,236	13,902
Repairs and Maintenance	13,909	5,409	2,760	920	22,998	21,916
Miscellaneous Expense	1,991	775	395	132	3,293	2,380
Interest Expense	930	362	184	61	1,537	2,901
Contract Services	1,045	6,609	-	-	7,654	784
Professional Fees	5,948	2,313	1,180	393	9,834	9,936
Total Expenses Before Depreciation	466,317	176,856	109,389	40,708	793,270	813,766
Depreciation	14,028	5,455	2,783	928	23,194	22,933
Total Expenses	\$ 480,345	\$ 182,311	\$ 112,172	\$ 41,636	\$ 816,464	\$ 836,699

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

LEGAL RIGHTS CENTER, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (41,540)	\$ 4,078
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	23,194	22,933
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Promises to give	62,000	500
Accounts receivable	5,697	20,257
Prepaid expenses	(41)	(1,028)
Increases (decreases) in:		
Accounts payable	853	258
Accrued expenses	1,549	190
	51,712	47,188
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,385)	(5,118)
Net Cash Used in Investing Activities	(1,385)	(5,118)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit	-	(12,296)
Principal payments on long-term debt	(9,755)	(16,203)
Net Cash Used in Financing Activities	(9,755)	(28,499)
INCREASE IN CASH AND CASH EQUIVALENTS	40,572	13,571
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	145,126	131,555
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 185,698	\$ 145,126
 SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:		
Interest paid	\$ 1,537	\$ 2,901

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

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Legal Rights Center, Inc. (the "Organization") 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 Center'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 Center 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 Center's programs include the following:

Legal Defense and Education - This program helps persons of low income who have problems with the law and provides attorney representation to persons brought into criminal or juvenile court. Staff Community Advocates choose the cases, prioritizing clients for whom they believe that LRC representation can make a positive impact; they then work with the LRC attorneys in finding services, culturally-specific when available, that can lead the clients to address the root causes of their involvement in the criminal or juvenile justice system and steer clear of future problems with the law. The program also provides outreach and education, assisting individuals in accessing other legal programs or providing necessary legal advice or information. Legal education presentations at schools and community centers are an additional component of the program.

Family and Youth Restorative Services - This program encompasses specially designed projects with institutional partners. Using restorative conflict resolution methods, the projects implement advocacy goals of low income communities of color while at the same time benefiting individuals and families.

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. Included in repairs and maintenance expense are expenses related to property damaged covered by insurance of \$13,384. 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, 2010 and 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

The financial statements have been prepared in conformity with the disclosure requirements of U.S. generally accepted accounting principles for not-for-profit organizations. Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets and changes thereto are classified and reported as follows:

Unrestricted Net Assets - This classification contains net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization, with the passage of time.

Revenues

Donations, grants, contributions, and all other forms of revenue are considered unrestricted use unless specifically restricted by the donor or until a specific amount of time has passed.

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, 2007 through 2010.

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 affect 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, 2010.

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, 2007.

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

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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.

Unrestricted, Temporarily Restricted and Permanently Restricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. The Organization had no permanently restricted net assets at December 31, 2010 or 2009. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as restricted support and then released from restriction.

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, 2010 and 2009 totaled \$185,698 and \$145,126, respectively.

NOTE B - PROMISES TO GIVE

In accordance with the U.S. generally accepted accounting principles, promises to give are shown as revenues or gains in the statement of activities in the period in which the promise is received, with an offsetting receivable shown on the statement of financial position. At December 31, 2010 and 2009, promises to give were \$0 and \$62,000, respectively.

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 are secured by the cash, receivables, and personal property of the Organization and are administered by Bremer Bank. Details are as follows:

	<u>Total</u>	<u>Current</u>	<u>Long-term</u>
Loan payable, City of Minneapolis. Monthly payments \$271.04 including interest at 2% per annum, matures January 14, 2013.	<u>\$12,735</u>	<u>\$3,022</u>	<u>\$9,713</u>

LEGAL RIGHTS CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE C - NOTES PAYABLE (continued)

Future maturities are as follows:

Year ending December 31,	Amount
2011	\$ 3,022
2012	3,084
2013	6,629
Total	\$ 12,735

	Total	Current	Long-term
Loan payable, Bremer Bank. Monthly payments \$331.77 including interest at 8% per annum, matures January 14, 2013	\$13,731	\$2,991	\$10,740

Future maturities are as follows:

Year ending December 31,	Amount
2011	\$ 2,991
2012	3,239
2013	7,501
Total	\$ 13,731

NOTE D - 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, 2010, this support amounted to approximately 61% of total revenue and in 2009, 59%. 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 would be severely impacted.

The Organization maintains cash and savings accounts in a single financial institution. The Federal Deposit Insurance Corporation insures accounts up to \$250,000 at that institution. At December 31, 2010 and 2009, there were no balances in excess of this limit.

NOTE E – SUBSEQUENT EVENTS

The Organization did not have any subsequent events through April 28, 2011, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2010.