
**LEGAL SERVICES OF
EASTERN MISSOURI, INC.**
FINANCIAL STATEMENTS
DECEMBER 31, 2019



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Independent Auditors' Report

Board of Directors
Legal Services of Eastern Missouri, Inc.
St. Louis, Missouri

Report On The Financial Statements

We have audited the accompanying financial statements of Legal Services of Eastern Missouri, Inc., a not-for-profit corporation, which comprise the statement of financial position as of December 31, 2019, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Services of Eastern Missouri, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, Legal Services of Eastern Missouri, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* and ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Additionally, as discussed in Note 1, the Corporation had made a change in accounting principle in 2019. Our opinion is not modified with respect to these matters.

Report On Summarized Comparative Information

We have previously audited Legal Services of Eastern Missouri, Inc.'s 2018 financial statements and our report dated April 29, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2020 on our consideration of Legal Services of Eastern Missouri, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Services of Eastern Missouri, Inc.'s internal control over financial reporting and compliance.

RubinBrown LLP

April 27, 2020

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Summarized Financial Information As Of December 31, 2018)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 402,100	\$ 2,196,053
Client trust deposits	1,913	1,336
Investments (Note 3)	9,832,293	7,159,753
Grants receivable (Note 4)	365,445	667,577
Unconditional promises to give, net (Note 5)	608,304	619,080
Prepaid expenses	88,200	67,619
Miscellaneous receivable	2,564	11,571
Total Current Assets	11,300,819	10,722,989
Investments (Note 3)	8,981	894,084
Unconditional Promises To Give - Long-Term (Note 5)	49,552	48,625
Property, Furniture And Equipment		
Land	350,000	350,000
Building (less accumulated depreciation of \$1,729,569 in 2019 and \$1,645,140 in 2018)	1,559,705	1,644,134
Furniture and equipment (less accumulated depreciation \$223,678 in 2019 and \$250,180 in 2018)	130,971	183,083
Total Property, Furniture And Equipment	2,040,676	2,177,217
Assets Restricted For Permanent Endowment (Notes 3 And 7)	48,610	48,610
Total Assets	\$ 13,448,638	\$ 13,891,525
Liabilities And Net Assets		
Current Liabilities		
Accounts payable	\$ 52,546	\$ 121,048
Accrued expenses	752,442	657,340
Current portion of capital lease obligations (Note 6)	44,692	42,366
Refundable advances (Note 4)	61,076	—
Client trust deposits	1,913	1,336
Total Current Liabilities	912,669	822,090
Capital Lease Obligations (Note 6)	68,835	104,187
Total Liabilities	981,504	926,277
Net Assets		
Without Donor Restrictions:		
Investment in property, furniture, and equipment	1,927,149	2,030,664
Designated for building capital (Note 12)	2,000,000	2,000,000
Designated for Cy Pres reserve for operations (Note 12)	1,500,000	1,500,000
Designated for Teitelman Fund (Note 12)	1,000,000	1,000,000
Undesignated	4,965,310	5,043,927
Total Net Assets Without Donor Restrictions	11,392,459	11,574,591
With donor restrictions (Note 8)	1,074,675	1,390,657
Total Net Assets	12,467,134	12,965,248
Total Liabilities And Net Assets	\$ 13,448,638	\$ 13,891,525

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2019 (With Summarized Financial Information For The Year Ended December 31, 2018)

	2019			2018	
	Without Donor Restrictions	With Donor Restrictions	Total	Total	
Revenue, Gains And Other Support					
Contributions:					
Public support	\$ 566,659	\$ 39,727	\$ 606,386	\$ 3,520,643	
United Way support	563,547	—	563,547	585,462	
Grants (Note 4):					
Government grants	5,154,426	47,754	5,202,180	5,740,815	
Foundation grants	974,946	25,425	1,000,371	758,039	
Donated services	1,188,030	—	1,188,030	1,766,113	
Special events	218,917	—	218,917	216,961	
Program income	7,842	—	7,842	50,740	
Investment income	283,653	—	283,653	108,184	
Other income	29,916	—	29,916	41,490	
Net assets released from restrictions (Note 8)	428,888	(428,888)	—	—	
Total Revenue, Gains And Other Support	9,416,824	(315,982)	9,100,842	12,788,447	
Expenses					
Program services	8,043,949	—	8,043,949	8,514,246	
Management and general (Note 10)	1,098,537	—	1,098,537	1,033,691	
Fundraising:					
Special events	76,411	—	76,411	102,099	
Development	380,059	—	380,059	296,251	
Total Expenses	9,598,956	—	9,598,956	9,946,287	
Increase (Decrease) In Net Assets	(182,132)	(315,982)	(498,114)	2,842,160	
Net Assets - Beginning Of Year	11,574,591	1,390,657	12,965,248	10,123,088	
Net Assets - End Of Year	\$ 11,392,459	\$ 1,074,675	\$ 12,467,134	\$ 12,965,248	

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2019 (With Summarized Financial Information For The Year Ended December 31, 2018)

	2019			2018	
	Program Services	Management And General	Fundraising And Development	Total	Total
Salaries And Related Expenses					
Lawyers	\$ 3,030,255	\$ —	\$ —	\$ 3,030,255	\$ 2,853,316
Para-professionals	1,511,899	—	—	1,511,899	1,478,758
Other	129,337	620,909	174,821	925,067	895,108
Fringe benefits and payroll taxes	1,057,565	156,977	38,409	1,252,951	1,206,514
Volunteer staff	1,188,030	—	—	1,188,030	1,766,113
Total Salaries And Related Expenses	6,917,086	777,886	213,230	7,908,202	8,199,809
Other Expenses					
Contracted services	101,699	102,946	42,420	247,065	345,814
Judicare	101,301	—	—	101,301	96,332
Equipment rental and computer maintenance	123,404	12,059	5,136	140,599	206,479
Insurance	43,514	4,286	948	48,748	45,801
Library	55,843	2,266	595	58,704	53,019
Litigation	61,464	1,343	45	62,852	47,128
Loss on disposal of property	—	4,094	—	4,094	3,734
Interest	—	4,948	—	4,948	6,421
Occupancy	222,009	39,095	5,400	266,504	239,534
Office supplies and expense	59,654	20,705	32,189	112,548	118,402
Professional fees	—	43,400	—	43,400	42,400
Program travel	44,702	4,177	332	49,211	50,838
Telephone	44,629	6,552	1,914	53,095	57,951
Training	55,678	7,939	2,827	66,444	75,620
Depreciation	118,507	15,806	4,450	138,763	142,202
Other direct expenses	94,459	51,035	146,984	292,478	214,803
Total Other Expenses	1,126,863	320,651	243,240	1,690,754	1,746,478
Total Functional Expenses	\$ 8,043,949	\$ 1,098,537	\$ 456,470	\$ 9,598,956	\$ 9,946,287

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2019 (With Summarized Financial Information For The Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (498,114)	\$ 2,842,160
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	138,763	142,202
Loss on disposal of property	4,094	3,734
Unrealized gain on investments	(30,294)	(1,965)
Changes in assets and liabilities:		
Grants receivable	302,132	453,137
Unconditional promises to give	9,849	2,044
Prepaid expenses	(20,581)	51,926
Miscellaneous receivable	9,007	(10,235)
Accounts payable	(68,502)	55,189
Accrued expenses	156,178	(22,017)
Net Cash Provided By Operating Activities	<u>2,532</u>	<u>3,516,175</u>
Cash Flows From Investing Activities		
Proceeds from sale or maturity of investments	24,134,538	9,564,972
Purchases of investments	(25,891,681)	(12,647,232)
Payments for property, furniture and equipment	—	(15,528)
Net Cash Used In Investing Activities	<u>(1,757,143)</u>	<u>(3,097,788)</u>
Cash Flows Used In Financing Activities		
Payments on capital lease obligations	(39,342)	(37,980)
Net Increase (Decrease) In Cash And Cash Equivalents	<u>(1,793,953)</u>	<u>380,407</u>
Cash And Cash Equivalents - Beginning Of Year	<u>2,196,053</u>	<u>1,815,646</u>
Cash And Cash Equivalents - End Of Year	<u>\$ 402,100</u>	<u>\$ 2,196,053</u>
Supplementary Cash Flow Information		
Interest paid	\$ 4,948	\$ 6,421
Noncash investing and financing activities:		
Acquisition of equipment under capital lease	<u>6,316</u>	<u>22,768</u>

LEGAL SERVICES OF EASTERN MISSOURI, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1. Summary Of Significant Accounting Policies

Estimates And Assumptions

Legal Services of Eastern Missouri, Inc. (the Corporation) 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. Actual results could differ from those estimates.

Basis Of Accounting

The accompanying financial statements of the Corporation have been prepared on the accrual basis of accounting.

Basis Of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) for not-for-profit organizations. Accordingly, the Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Cash And Cash Equivalents

The Corporation maintains several cash accounts at local banks. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per bank. As of December 31, 2019, the Corporation did not have cash deposits in excess of the insured limits.

Investments

The Corporation accounts for investments at fair value and at December 31, 2019 had investments of \$9,889,884 reported on the statement of financial position. Gains or losses on sales of investments are determined on a specific cost-identification method. Unrealized gains and losses are determined based on year-end fair value fluctuations.

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. Corporation management is of the opinion that an allowance for uncollectible grants receivable is not necessary at December 31, 2019.

Unconditional Promises To Give

Unconditional promises to give are recognized as support in the period the promises are received. The Corporation provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in the collection of all promises to give. The estimated losses are based on historical collection experience coupled with a review of the current status of the existing receivables. The allowance for doubtful accounts is \$3,445 as of December 31, 2019.

Support And Revenue With Donor Restrictions And Without Donor Restrictions

The Corporation reports gifts of cash and other assets as support with donor restriction if they are received with donor stipulations that limit the use of the donated assets. Promises to give in the future are reported as support with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

As permitted by FASB ASU 958, contributions with donor restrictions that are met within the same year as the contributions are received are reported in net assets without donor restrictions. This represents an accounting policy change that the Corporation has implemented in 2019, as the Corporation believes that this method is preferable as it presents a more accurate reflection of its operations.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Corporation has the policy of not investing in equity securities. If equity securities are contributed, they are recorded as a contribution at the fair value on the date of the contribution. They are converted to cash shortly thereafter.

Description Of Program And Supporting Services

Program

Includes those expenditures for programs and other items that enable the Corporation to provide legal assistance to qualified individuals.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

Management And General

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Corporation's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Corporation.

Fundraising And Development

Provides the structure necessary to encourage and secure financial support from government agencies, corporations, foundations and individuals.

Property, Furniture And Equipment

Property, furniture and equipment are valued at cost, less accumulated depreciation. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 15 years. The building is being depreciated using the straight-line method over 39 years.

Repairs and maintenance charges, which do not increase the useful lives of the fixed assets, are charged to expense as incurred. Expenditures for betterments are capitalized.

Furniture and equipment acquired with Legal Services Corporation funds are considered to be owned by the Corporation while used in the current or future authorized programs. However, Legal Services Corporation has a reversionary interest in these assets. Proceeds from the sale of fixed assets are credited to the Legal Services Corporation Restricted Fund. The Corporation does not currently have any furniture or equipment that were acquired with Legal Services Corporation funds.

Donated Services

Donated services valued at \$1,188,030 for 2019 represent services donated by attorneys, law students, paralegals, and social workers. Donated services are valued at rates comparable to those paid for these professionals within the metropolitan area.

Donated services are recognized both as revenue and expense and, therefore, do not affect net assets without donor restrictions.

Functional Allocation Of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries, payroll taxes, fringe benefits and related costs are allocated based on actual hours worked. The remaining costs are allocated based on the percentage distribution of salaries.

Grant and contract support received from funding organizations is used to help support the service areas as specified by the grant or contract. Expenses incurred in the specified service areas are charged against the grant or contract to the extent of support received, with allowable expenditures in excess of grant or contract support being borne by the Basic Civil Legal Services Fund, United Way, and unrestricted donations. In some cases, common expenses are incurred which support the work performed under more than one grant. Such expenses are allocated as agreed by funding organizations or, in the absence of an agreement, on the basis that appears most reasonable to the Corporation.

New Accounting Pronouncements

In 2019, the Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and FASB ASU No. 2014-09, *Revenue from Contracts with Customers*. FASB ASU No. 2018-08 provides enhanced guidance to assist entities in evaluating whether transactions should be accounted for as contributions or reciprocal transactions. Substantially all of the Corporation's revenues are contributions as specified by FASB ASC 958 and clarified by ASU No. 2018-08. The implementation of ASU No. 2018-08 did not have a material impact on the Corporation's financial statements.

FASB ASU No. 2014-09 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. FASB ASU No. 2014-09 had no material impact on the Corporation's financial statements, since substantially all of the Corporation's revenues are contributions as discussed in the paragraph above, and are therefore exempt from the provisions of ASU No. 2014-09.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available for issue, which is the date of the Independent Auditors' Report.

In response to COVID-19, the Corporation's employees are temporarily working remotely to continue to provide services. This closure is consistent with Center for Disease Control recommendations. The Corporation is closely monitoring the status of COVID-19 in the eastern Missouri region and the United States, and regularly reassessing plans and procedures. The impact of this closure on future operations, grant funding, and donations is not yet known. Also, related to COVID-19, it is reasonably possible that changes in the market could affect the value of investments reported in the statement of financial position. The extent to which COVID-19 will impact the Corporation will depend on future developments, which remain highly uncertain and cannot be predicted at this time.

In April 2020, the Corporation received \$600,000 under the Paycheck Protection Program (PPP) that was signed into law as part of the CARES Act during the COVID-19 outbreak. This loan has a two-year term at an interest rate of 1% and may also be eligible for tax free forgiveness up to 100% of the loan value if certain criteria are met.

2. Organization

The Corporation is a not-for-profit corporation organized for the purpose of providing legal assistance in noncriminal proceedings to persons financially unable to afford legal assistance in St. Louis and the surrounding areas. The Corporation is principally funded through grants and contributions from Legal Services Corporation, Missouri Civil Legal Services Fund and United Way of Greater St. Louis, Inc.

Legal Services Corporation is a not-for-profit organization established by Congress to administer a nationwide legal assistance program. Funding for Legal Services Corporation is provided by an annual Congressional appropriation.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

3. Investments

Investments are included within the following captions on the statement of financial position:

Current assets - investments	\$ 9,832,293
Investments	8,981
Assets restricted for permanent endowment	<u>48,610</u>
	<u>\$ 9,889,884</u>

The Corporation utilizes an established framework for measuring fair value of investments. That framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The framework requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

There are three general valuation techniques that may be used to measure fair value, as described below:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset.
- Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

Investments measured and reported at fair value are classified and disclosed in one of the following three categories:

- Level 1* Quoted prices that are readily available in active markets/ exchanges for identical investments.
- Level 2* Pricing inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3* Significant pricing inputs that are unobservable for the investment and includes investments for which there is little, if any, market activity for the investment.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended December 31:

	December 31, 2019				
	Cost	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:					
International Core Equity	\$ 147,596	\$ 151,536	\$ 151,536	\$ —	\$ —
US Vector Equity	98,397	100,074	100,074	—	—
US Core Equity	393,588	398,967	398,967	—	—
Emerging Markets	49,199	52,185	52,185	—	—
Five Year Global Fixed Income	2,553,276	2,498,737	2,498,737	—	—
Global Real Estate	49,199	46,358	46,358	—	—
International Value	98,397	100,779	100,779	—	—
US Large Cap Value	147,596	147,813	147,813	—	—
US Treasury Cash Reserves	500,000	500,000	500,000	—	—
Short-Term Investment Grade	5,887,532	5,887,500	5,887,500	—	—
Global Equity	5,775	5,935	5,935	—	—
	\$ 9,930,555	\$ 9,889,884	\$ 9,889,884	\$ —	\$ —

For the year ended December 31, 2019, the Corporation incurred unrealized gains totaling \$30,294.

4. Summary Of Funding And Grants Receivable

Legal Services of Eastern Missouri, Inc. is funded primarily through grants from Legal Services Corporation and the Missouri Civil Legal Services Fund. The Corporation also receives other grant funds from contracts and grants with state and local governmental organizations.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

The Corporation's primary funding grants and contracts in effect during 2019 were as follows:

Government Grants and Foundation Grants

Legal Services Corporation:

Basic grant	\$ 2,064,536
Rural Stipend Fund	5,000
Pro Bono Innovation Fund	26,217
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	2,095,753
Missouri Civil Legal Services Fund	1,212,172
Missouri Department of Social Services	589,585
Missouri Foundation for Health	165,334
St. Louis City Mental Health Board	439,182
St. Louis County Children's Service Fund	87,684
Missouri Lawyers Trust (IOLTA)	624,268
U.S. Department of Justice	135,037
Connectings Kid to Coverage Outreach and Enrollment	89,535
Missouri Bar dues	321,674
Other government grants and foundation grants	442,327
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	\$ 6,202,551
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Grants Receivable

Missouri Foundation for Health	\$ 28,145
St Louis Mental Health Board	28,380
Missouri Department of Social Services	180,994
Connecting Kids to Coverage Outreach and Enrollment	66,073
Various other grants	61,853
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	\$ 365,445
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Refundable Advances

Legal Services Corporation:	
Pro Bono Innovation Fund	\$ 37,055
National Health Law Program	14,091
St Louis Mental Health Board	6,392
Curators of the University of Missouri at Kansas City pass thru grant from the Missouri Developmental Disabilities Council	3,538
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	\$ 61,076
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LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

5. Unconditional Promises To Give

Unconditional promises to give are expected to be collected as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 611,749
2021	46,702
2022	2,450
2023	200
2024	200
	<u>661,301</u>
Less: Allowance for uncollectibles	<u>3,445</u>
	<u>\$ 657,856</u>

At December 31, 2019, all promises to give are considered to have donor restrictions. Unconditional promises to give include \$543,814 which is due from the United Way of Greater St. Louis, Inc.

6. Capital Lease Obligations

The Corporation is involved in multiple equipment leases entered into during 2017. These leases are considered to be equivalent to installment purchases for purposes of accounting presentation. Assets under capital leases are capitalized using interest rates appropriate at the inception of the related lease and amortized over the life of the lease. Amortization of such assets is include in depreciation expense. The gross amount of equipment and related accumulated depreciation recorded under these capital leases were \$216,452 and \$101,080, respectively, at December 31, 2019.

Future minimum lease payments at December 31, 2019 are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 45,147
2021	45,147
2022	29,480
Total minimum obligations	<u>119,774</u>
Less: Amounts representing future interest	<u>6,247</u>
Present value of minimum lease payments	<u>\$ 113,527</u>

7. Endowment Funds

The Corporation's endowment fund consists of donor-restricted endowment funds. As required under ASC 958-210, assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation Of State Law

The Corporation has interpreted Missouri State Statutes as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies the original value of donor-restricted gifts to permanent endowment and the original value of subsequent gifts to the permanent endowment as net assets with donor restriction. The investment earnings generated by donor-restricted endowment funds are classified as net assets with donor restrictions until appropriated for expenditure.

As of December 31, 2019, the Corporation had the following endowment funds:

	<u>Unrestricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Endowment funds</u>	\$ —	\$ 57,591	\$ 57,591

8. Net Assets

Net assets with donor restrictions consist of the following:

Unappropriated endowment earnings	\$ 8,981
Endowment principal	48,610
Grants and contributions - subject to time restrictions	<u>1,017,084</u>
	<u>\$ 1,074,675</u>

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

Net assets were released from donor-imposed restrictions as follows:

Missouri Foundation for Health	\$	218,836
Teitelman Chair		103,753
St. Louis City Mental Health Board		22,017
AIDS Handbook		16,700
United Way		16,113
ASC Foundation		13,900
EJW Fellowship		11,375
The Boeing Company		10,000
Lutheran Foundation		6,769
Sandcastle Foundation		5,000
Monsanto		2,777
Various other programs		1,648
		<hr/>
	\$	428,888
		<hr/> <hr/>

9. Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a “private foundation” within the meaning of Section 509(a) of the Code. The Corporation is subject to taxation to the extent it incurs unrelated business taxable income. The Corporation does not anticipate owing any unrelated business income taxes for 2019; therefore, no provision for income taxes has been made in the financial statements. The Corporation’s federal tax returns for tax years 2016 and later remain subject to examination by taxing authorities.

10. Management, Administrative And General Costs

The Corporation estimates that its management, administrative and general costs (which include overall direction, accounting, budgeting, general Board activities and related items, administrative costs and volunteer efforts) were \$1,098,538 (12% of revenue, gains and other support) in 2019.

11. Deferred Compensation Plan

The Corporation has a qualified, noncontributory, trustee profit sharing plan covering eligible full-time employees. The plan provides for contributions by the Corporation in such amounts as the Board of Directors may annually determine. The Corporation incurred contributions of \$234,404 in 2019 which are included in accrued expenses on the balance sheet.

12. Designated For Building Capital And Cy Pres Reserve

The Corporation has an agreement with the three other Missouri legal services organizations to share all cy pres settlements in proportion to their respective poverty populations. Cy pres settlements were awarded to the Corporation in the amount of \$2,000,000 in 2014 and \$2,841,020 in 2018 with the requirement that they remain with the Corporation. Therefore, the Corporation will forego its share of future awards under the agreement until the other three Missouri legal services organizations have been compensated from subsequent settlement awards. The other agencies were fully compensated in 2018 for the \$2,000,000 award from 2014. Management estimates that it will take approximately ten years for the other three agencies to be fully compensated for the \$2,841,020 awarded in 2018.

Recognizing that the Corporation will forego sharing in future cy pres settlements for approximately ten years, the Board of Directors made the following designations in 2019:

- \$1,000,000 of the 2018 cy pres award was designated to establish the Teitelman Fund to support an attorney position for advocacy work in the spirit of the work done by Judge Teitelman during his tenure.
- \$1,150,000 of the 2018 cy pres award was designated to the Building Capital and Litigation Related Expense Reserve fund, bringing this fund balance to \$2,000,000 as of December 31, 2019.
- \$657,894 was designated to the Cy Pres Reserve for operations. This fund is to be released annually at the discretion of the Board, to offset lost settlement funds the Corporation would have otherwise received under the sharing agreement. The board did not release any funds from the Cy Pres Reserve for operations in either 2018 or 2019, which when added to previous amounts in the Cy Pres reserve brings the total reserve to \$1,500,000 at the end of 2019.

13. Contingencies

From time to time, the Corporation is subject to lawsuits and claims that arise out of the normal course of business. In the opinion of management, the disposition of such actions of which it is aware will not have a material effect on the financial position of the Corporation.

14. Liquidity And Availability Of Financial Assets

The following reflects LSEM's liquidity within the next twelve months based on current assets as of the statement of financial position date. Amounts not available include amounts not available for general use because of contractual or donor-imposed restrictions and amounts set aside for operating and other reserves that could be drawn upon if the board of directors approves that action. LSEM generally maintains operating reserves to meet 4-6 months of operating expenses.

Current assets,	\$ 11,300,819
Less:	
Client trust deposits	1,913
Prepaid expenses	88,200
Donor-restrictions for specific purposes	1,046,300
Board-designated operating reserves and other	<u>4,500,000</u>
 Financial assets available to meet cash needs for general expenditure within one year	 <u><u>\$ 5,664,406</u></u>

Legal Services of Eastern Missouri's working capital and cash flow fluctuations during the year are mainly attributable to various fundraising events and a concentration of contributions received near calendar year-end. To manage liquidity, LSEM maintains a minimum of \$500,000 of reserves for operations in government securities and FDIC insured deposit accounts.



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Independent Auditors' Report On Supplementary Information

Board of Directors
Legal Services of Eastern Missouri, Inc.
St. Louis, Missouri

We have audited the financial statements of Legal Services of Eastern Missouri, Inc. as of and for the year ended December 31, 2019, and our report thereon dated April 27, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of revenues, expenses and changes in net assets on the fund accounting basis and schedule of support, revenues, expenses and changes in net assets for Legal Services Corporation funds, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RubinBrown LLP

April 27, 2020

LEGAL SERVICES OF EASTERN MISSOURI, INC.

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FUND ACCOUNTING BASIS

For The Year Ended December 31, 2019

(With Summarized Financial Information For The Year Ended December 31, 2018)

	Legal Services Corporation Fund	Private Attorney Involvement	Pro Bono Innovation Fund	Rural Stipend Fund	General Endowment	Other Funds	2019 Total	2018 Total
Public Support And Revenues								
Contributions:								
Public support	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 606,386	\$ 606,386	\$ 3,520,643
United Way support	—	—	—	—	—	563,547	563,547	585,462
Grants:								
Government grants	1,732,647	331,889	26,217	5,000	—	3,106,427	5,202,180	5,740,815
Foundation grants	—	—	—	—	—	1,000,371	1,000,371	758,039
Other revenues:								
Donated services	—	1,188,030	—	—	—	—	1,188,030	1,766,113
Special events	—	—	—	—	—	218,917	218,917	216,961
Program income	7,842	—	—	—	—	—	7,842	50,740
Investment income	4,692	—	—	—	—	278,961	283,653	108,184
Other income	—	—	—	—	—	29,916	29,916	41,490
Gain on lease disposal	—	—	—	—	—	—	—	—
Total Public Support And Revenues	1,745,181	1,519,919	26,217	5,000	—	5,804,525	9,100,842	12,788,447
Expenses								
Program services	1,386,745	1,494,332	23,447	5,000	—	5,015,918	7,925,442	8,386,032
Supporting services - management and general	239,596	25,587	2,770	—	—	814,778	1,082,731	1,021,458
Other	—	—	—	—	—	—	—	5,000
Fundraising and development	118,840	—	—	—	—	333,180	452,020	398,349
Depreciation	—	—	—	—	—	138,763	138,763	135,448
Total Expenses	1,745,181	1,519,919	26,217	5,000	—	6,302,639	9,598,956	9,946,287
Excess (Deficiency) Of Public Support And Revenues Over Expenses	—	—	—	—	—	(498,114)	(498,114)	2,842,160
Expiration Of Program And Time Restrictions	—	—	—	—	—	—	—	—
Increase (Decrease) In Fund Balance	—	—	—	—	—	(498,114)	(498,114)	2,842,160
Fund Balance - Beginning Of Year	—	—	—	—	48,610	12,916,638	12,965,248	10,123,088
Fund Balance - End Of Year	\$ —	\$ —	\$ —	\$ —	\$ 48,610	\$ 12,418,524	\$ 12,467,134	\$ 12,965,248

LEGAL SERVICES OF EASTERN MISSOURI, INC.

SCHEDULE OF SUPPORT, REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR LEGAL SERVICES CORPORATION FUNDS

For The Year Ended December 31, 2019

(With Summarized Financial Information For The Year Ended December 31, 2018)

	2019						2018	
	Basic Field Grant	Private Attorney Involvement	Pro Bono Innovation Fund Grant	Rural Stipend	Total	Property	Grand Total	Grand Total
Support And Revenue								
Grants:								
Government grants	\$ 1,732,647	\$ 331,889	\$ 26,217	\$ 5,000	\$ 2,095,753	\$ —	\$ 2,095,753	\$ 2,028,809
Donated services	—	1,188,030	—	—	1,188,030	—	1,188,030	1,766,113
Program income:								
Attorneys' fees	7,842	—	—	—	7,842	—	7,842	16,540
Investment income:								
Interest income	4,692	—	—	—	4,692	—	4,692	2,413
Total Support And Revenue	1,745,181	1,519,919	26,217	5,000	3,296,317	—	3,296,317	3,813,875
Expenses								
Salaries and related expenses:								
Lawyers	607,015	63,296	12,037	—	682,348	—	682,348	622,185
Para-professionals	382,089	93,537	7,439	—	483,065	—	483,065	445,180
Other	296,791	19,748	2,359	5,000	323,898	—	323,898	323,486
Employee benefits	328,610	38,066	2,963	—	369,639	—	369,639	328,200
Donated services	—	1,188,030	—	—	1,188,030	—	1,188,030	1,766,113
Total salaries and related expenses	1,614,505	1,402,677	24,798	5,000	3,046,980	—	3,046,980	3,485,164
Other expenses:								
Contracted services	8,113	354	62	—	8,529	—	8,529	46,256
Judicare	—	101,301	—	—	101,301	—	101,301	96,332
Computer maintenance	6,546	1,046	22	—	7,614	—	7,614	32,815
Insurance	3,635	952	89	—	4,676	—	4,676	7,983
Library	2,805	485	211	—	3,501	—	3,501	5,277
Litigation	7,084	981	—	—	8,065	—	8,065	10,859
Occupancy	36,690	6,063	622	—	43,375	—	43,375	37,771
Office supplies and expense	8,894	1,801	106	—	10,801	—	10,801	25,746
Professional fees	20,072	—	—	—	20,072	—	20,072	14,133
Program travel	6,476	198	153	—	6,827	—	6,827	9,518
Telephone	13,325	1,644	128	—	15,097	—	15,097	14,446
Training	15,517	2,094	17	—	17,628	—	17,628	22,046
Other direct expenses	1,519	323	9	—	1,851	—	1,851	5,529
Total other expenses	130,676	117,242	1,419	—	249,337	—	249,337	328,711
Total Expenses	1,745,181	1,519,919	26,217	5,000	3,296,317	—	3,296,317	3,813,875
Total Changes In Net Assets	—	—	—	—	—	—	—	—
Net Assets - Beginning Of Year	—	—	—	—	—	—	—	—
Net Assets - End Of Year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —