
**LEGAL SERVICES OF
EASTERN MISSOURI, INC.**
FINANCIAL STATEMENTS
DECEMBER 31, 2022



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Independent Auditors' Report

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

Report On The Audit Of The Financial Statements

Opinion

We have audited the 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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Legal Services of Eastern Missouri, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities For The Audit Of The Financial Statements section of our report. We are required to be independent of Legal Services of Eastern Missouri, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter: Change in Accounting Principle

As discussed in Note 1 to the financial statements, as of January 1, 2022, Legal Services of Eastern Missouri, Inc. has adopted Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to the matter.

Responsibilities Of Management For The Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Services of Eastern Missouri, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities For The Audit Of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Legal Services of Eastern Missouri, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Services of Eastern Missouri, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report On Summarized Comparative Information

We have previously audited Legal Services of Eastern Missouri's 2021 financial statements and our report dated April 26, 2022 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 24, 2023, 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 solely 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 the effectiveness of Legal Services of Eastern Missouri, Inc.'s 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 24, 2023

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2022

(With Summarized Financial Information As Of December 31, 2021)

	2022	2021
Current Assets		
Cash and cash equivalents	\$ 997,236	\$ 599,211
Restricted cash - client trust deposits	4,069	225
Investments (Note 3)	46,224,762	11,959,284
Grants receivable (Note 4)	888,896	477,484
Unconditional promises to give, net (Note 5)	582,302	566,109
Prepaid expenses	285,125	156,504
Miscellaneous receivable	—	5,268
Security deposits	59,561	—
Total Current Assets	49,041,951	13,764,085
Unconditional Promises To Give - Long-Term (Note 5)	—	2,000
Property, Furniture And Equipment		
Land	350,000	350,000
Building (less accumulated depreciation of \$1,991,733 in 2022 and \$1,900,347 in 2021)	1,614,913	1,660,275
Furniture and equipment (less accumulated depreciation \$291,696 in 2022 and \$283,078 in 2021)	26,642	31,337
Total Property, Furniture And Equipment	1,991,555	2,041,612
Right-of-Use Assets		
Right of use asset - operating lease	223,232	—
Right of use asset - finance lease	22,700	—
Total Right-of-Use Assets	245,932	—
Assets Restricted For Permanent Endowment (Notes 3 And 7)	48,610	48,610
Total Assets	\$ 51,328,048	\$ 15,856,307
Current Liabilities		
Accounts payable	\$ 265,005	\$ 81,304
Accrued expenses	930,702	752,111
Current portion of operating lease obligations (Note 6)	11,322	—
Current portion of finance lease obligations (Note 6)	7,992	12,039
Refundable advances (Note 4)	351,542	233,165
Client trust deposits	4,069	225
Total Current Liabilities	1,570,632	1,078,844
Noncurrent Liabilities		
Lease liability - operating lease (Note 6)	216,587	—
Lease liability - finance lease (Note 6)	14,096	17,039
Total Noncurrent Liabilities	230,683	17,039
Total Liabilities	1,801,315	1,095,883
Net Assets		
Without Donor Restrictions:		
Investment in property, furniture, and equipment	1,987,490	2,012,534
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	41,842,087	7,341,743
Total Net Assets Without Donor Restrictions	48,329,577	13,854,277
With donor restrictions (Note 8)	1,197,156	906,147
Total Net Assets	49,526,733	14,760,424
Total Liabilities And Net Assets	\$ 51,328,048	\$ 15,856,307

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2022 (With Summarized Financial Information For The Year Ended December 31, 2021)

	2022			2021	
	Without Donor Restrictions	With Donor Restrictions	Total	Total	
Revenue, Gains And Other Support					
Contributions:					
Public support	\$ 509,688	\$ —	\$ 509,688	\$ 472,852	
United Way support	593,909	—	593,909	578,822	
Grants (Note 4):					
Government grants	42,905,665	—	42,905,665	6,795,825	
Foundation grants	1,344,355	310,986	1,655,341	1,759,326	
Donated services	998,842	—	998,842	1,043,471	
Special events	139,550	—	139,550	155,955	
Program income	453,029	—	453,029	13,800	
Investment income	(362,908)	—	(362,908)	251,523	
Other income	1,011	—	1,011	92	
Net assets released from restrictions (Note 8)	19,977	(19,977)	—	—	
Total Revenue, Gains And Other Support	46,603,118	291,009	46,894,127	11,071,666	
Expenses					
Program services	10,380,234	—	10,380,234	8,572,812	
Management and general (Note 10)	1,425,609	—	1,425,609	1,349,493	
Fundraising:					
Special events	50,756	—	50,756	72,024	
Development	271,219	—	271,219	307,724	
Total Expenses	12,127,818	—	12,127,818	10,302,053	
Increase In Net Assets	34,475,300	291,009	34,766,309	769,613	
Net Assets - Beginning Of Year	13,854,277	906,147	14,760,424	13,990,811	
Net Assets - End Of Year	\$ 48,329,577	\$ 1,197,156	\$ 49,526,733	\$ 14,760,424	

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2022
(With Summarized Financial Information
For The Year Ended December 31, 2021)

	2022			2021	
	Program Services	Management And General	Fundraising And Development	Total	Total
Salaries And Related Expenses					
Lawyers	\$ 3,960,771	\$ —	\$ —	\$ 3,960,771	\$ 3,440,211
Para-professionals	2,286,669	2,071	—	2,288,740	1,819,528
Other	116,918	856,921	140,622	1,114,461	1,058,761
Fringe benefits and payroll taxes	1,472,291	153,489	33,526	1,659,306	1,477,017
Volunteer staff	998,842	—	—	998,842	1,043,471
Total Salaries And Related Expenses	8,835,491	1,012,481	174,148	10,022,120	8,838,988
Other Expenses					
Contracted services	505,527	207,100	34,670	747,297	405,511
Judicare	48,707	—	—	48,707	54,868
Equipment rental and computer maintenance	41,083	2,083	3,383	46,549	28,040
Insurance	53,111	3,426	844	57,381	52,395
Library	71,507	1,250	90	72,847	59,246
Litigation	75,977	352	1	76,330	52,109
Loss on disposal of property	—	560	—	560	—
Interest	—	1,049	—	1,049	2,189
Occupancy	365,174	18,446	6,453	390,073	233,330
Office supplies and expense	92,425	8,068	19,530	120,023	89,746
Professional fees	—	48,900	—	48,900	47,100
Program travel	23,395	1,606	131	25,132	10,691
Telephone	34,119	1,864	997	36,980	44,799
Training	94,916	7,667	2,003	104,586	38,364
Depreciation and amortization	85,823	13,285	2,960	102,068	133,715
Other direct expenses	52,979	97,472	76,765	227,216	210,962
Total Other Expenses	1,544,743	413,128	147,827	2,105,698	1,463,065
Total Functional Expenses	\$ 10,380,234	\$ 1,425,609	\$ 321,975	\$ 12,127,818	\$ 10,302,053

LEGAL SERVICES OF EASTERN MISSOURI, INC.

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2022 (With Summarized Financial Information For The Year Ended December 31, 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 34,766,309	\$ 769,613
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	102,068	133,715
Loss on disposal of property	18,000	—
Net realized loss (gain) on investments	36,487	(61,829)
Net unrealized loss (gain) on investments	1,108,489	22,497
Changes in assets and liabilities:		
Grants receivable	(411,412)	(43,711)
Unconditional promises to give	(14,193)	38,894
Prepaid expenses	(128,621)	(28,508)
Miscellaneous receivable	5,268	99,565
Accounts payable	183,701	41,466
Accrued expenses and refundable advances	296,968	(273,178)
Operating leases	4,677	—
Client trust deposits	(55,717)	(1,038)
Net Cash Provided By Operating Activities	35,912,024	697,486
Cash Flows From Investing Activities		
Proceeds from sale or maturity of investments	11,666,753	821,711
Purchases of investments	(47,077,207)	(1,563,671)
Payments for property, furniture and equipment	(92,711)	(271,348)
Net Cash Used In Investing Activities	(35,503,165)	(1,013,308)
Cash Flows Used In Financing Activities		
Payments on finance lease	(6,990)	(42,958)
Net Increase (Decrease) In Cash And Cash Equivalents	401,869	(358,780)
Cash And Cash Equivalents - Beginning Of Year	599,436	958,216
Cash And Cash Equivalents - End Of Year	\$ 1,001,305	\$ 599,436
Supplementary Cash Flow Information		
Interest paid	\$ 1,049	\$ 2,189
Right-of-use assets and lease obligations (Note 6)	—	—

LEGAL SERVICES OF EASTERN MISSOURI, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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, 2021, from which the summarized information was derived.

Cash, Restricted 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, 2022, the Corporation had no cash deposits in excess of the insured limits. The Corporation does have restricted cash balances that are made up of client trust deposits. The restricted cash balance is \$4,069 as of December 31, 2022.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements *(Continued)*

Investments

The Corporation accounts for investments at fair value and at December 31, 2022 had investments of \$46,273,372 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, 2022.

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, 2022.

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.

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.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

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.

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.

Leases

On January 1, 2022, the Corporation utilized the modified retrospective approach to adopt the provisions of Accounting Standards Codification (ASC) Topic 842, *Leases*, which includes a number of optional practical expedients that entities may elect to apply. The Corporation has elected certain practical expedients, including the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The initial adoption of ASC 842 did not result in a cumulative adjustment to net assets. Results for 2022 are presented under ASC 842, while the prior period financial statements have not been adjusted and continue to be presented under ASC 840, the accounting standard in effect at that time.

The Corporation maintains leases of an office facility and equipment. Lease Right-Of-Use (ROU) assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The ROU assets represent the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The Corporation's leases generally have terms of one to ten years. The Corporation does not record ROU assets or lease liabilities for leases with an initial expected lease term of 12 months or less. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the term of the lease.

As most leases do not provide an implicit discount rate, the Corporation estimates an incremental borrowing rate based on the information available at the lease commencement date to determine the present value of the lease payments. The estimated incremental borrowing rate represents the estimated rate of interest that would have been charged to borrow an amount equal to the lease payments on a collateralized basis for a similar period of time.

As most leases do not provide an implicit discount rate, the Corporation has made an election available to private companies that allows the use of the risk-free rate at the lease commencement date to determine the present value of the lease payments.

The Corporation's operating lease contains fixed rent escalations over the lease term, and the Corporation recognizes expense for these leases on a straight-line basis over the lease term. The Corporation recognizes the related lease expense on a straight-line basis and records the difference between the recognized lease expense and amounts payable under the lease as part of the ROU asset.

The Corporation does not separate non-lease components of a contract from the lease components to which they relate for all classes of lease assets.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

Donated Services

Donated services valued at \$998,842 for 2022 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.

Reclassification

Certain prior year amounts have been reclassified, where appropriate, to conform to current year 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.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (*Continued*)

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.

3. Investments

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

Current assets - investments	\$ 46,224,762
Assets restricted for permanent endowment	<u>48,610</u>
	<u>\$ 46,273,372</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.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

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.

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, 2022				
	Cost	Fair Value	Level 1	Level 2	Level 3
Mutual Funds:					
International Core Equity	\$ 114,423	\$ 140,277	\$ 140,277	\$ —	\$ —
Emerging Markets	40,692	45,797	45,797	—	—
Short Duration Real	3,430,925	3,344,650	3,344,650	—	—
International Value	76,611	103,159	103,159	—	—
PIMCO Investments	1,914,900	1,838,945	1,838,945	—	—
Schwab Fund Money					
Market Investor	35,895,630	35,895,630	35,895,630	—	—
Core Bond Admiral	4,345,546	4,229,736	4,229,736	—	—
Total Stock Market Index	420,974	378,596	378,596	—	—
Global Equity	5,775	6,290	6,290	—	—
Exchange Traded Funds:					
US Small Cap Value	125,335	141,196	141,196	—	—
Ishares Trust	138,433	149,096	149,096	—	—
	\$ 46,509,244	\$ 46,273,372	\$ 46,273,372	\$ —	\$ —

For the year ended December 31, 2022, the Corporation incurred unrealized losses totaling \$1,108,489.

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)

During 2022, the Corporation received a one-time payment of \$36,577,033 from the Missouri Civil Legal Services Fund related to a large tort settlement.

The Corporation's primary funding grants and contracts in effect during 2022 were as follows:

Government Grants and Foundation Grants

Legal Services Corporation:

Basic grant	\$	2,328,178
Pro Bono Innovation Fund		126,316
Rural Stipend		10,000
		<hr/>
		2,464,494
Missouri Civil Legal Services Fund		37,506,932
Missouri Department of Social Services		565,058
Missouri Foundation for Health		435,076
Department of Housing and Urban Development		383,806
St. Louis City Mental Health Board		556,991
St. Louis County Children's Service Fund		81,247
St. Louis Economic Development Partnership		66,711
City of St. Louis		406,031
Missouri Lawyers Trust (IOLTA)		585,826
Connecting Kid to Coverage Outreach and Enrollment		228,012
Missouri Bar dues		292,139
Wells Fargo		54,698
U.S. Department of Justice		222,073
National Health Law Program		87,429
Other government grants and foundation grants		624,483
		<hr/>
	\$	44,561,006

Grants Receivable

Legal Services Corporation - Pro Bono Innovation Fund	\$	43,880
St Louis Children's Foundation		27,353
Department of Housing and Urban Development		161,858
Missouri Department of Social Services		142,146
Connecting Kids to Coverage Outreach and Enrollment		73,232
U.S. Department of Justice		128,770
City of St. Louis		209,868
Various other grants		101,789
		<hr/>
	\$	888,896

Refundable Advances

National Health Law Program	\$	42,114
St. Louis County Housing Authority		48,165
Skadden Foundation		19,744
Wells Fargo Foundation		88,048
Sandcastle Foundation		10,000
Charless Foundation		15,000
Response Fund Utilities Advocacy		27,646
Bayer Foundation		25,000
MHDC - SAFHR		25,000
Equal Justice Works		7,599
St. Louis Mental Health Board - YFAP		35,119
St. Louis City Senior Fund		4,357
Center of Budget and Policy Priorities		3,750
		<hr/>
	\$	351,542

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>
2023	\$ 585,747
Less: Allowance for uncollectibles	3,445
	<u>\$ 582,302</u>

At December 31, 2022, all promises to give are considered to have donor restrictions. Unconditional promises to give include \$572,239 which is due from the United Way of Greater St. Louis, Inc.

6. Lease Obligations

The Corporation has an operating and a finance lease for a satellite office and phone system, respectively. The office lease expires in ten years on October 31, 2032 and has escalating payments based on square footage. The equipment lease is a lease for a phone system, and is a 36 month lease that is set to expire in August 2025. The phone lease has an option to purchase for \$1 at the end of the lease term, which the Corporation plans to execute.

Supplemental cash flow and other information related to leases are as follows:

Cash flow information:

ROU assets obtained in exchange for new operating lease obligations	\$ 226,392
ROU assets obtained in exchange for new finance lease obligations	24,762
Cash paid for operating leases included in operating activities	251
Cash paid for finance leases included in financing activities	6,990

Other information:

Weighted-average remaining term - operating leases	9.84 years
Weighted-average remaining term - finance leases	2.75 years
Weighted-average discount rate - operating leases	4.07%
Weighted-average discount rate - finance leases	4.25%

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

Supplemental cash flow and other information related to leases are as follows:

Finance Lease Costs	Classification	
Amortization of ROU assets	<i>Depreciation and amortization</i>	\$ 2,086
Interest	<i>Interest</i>	<u>251</u>
		<u>\$ 2,337</u>
Operating Lease Costs		
Operating lease costs	<i>Equipment Maintenance & Rent expense</i>	<u>\$ 4,678</u>

The reconciliation of the undiscounted cash flows for each of the next five years and total remaining years of the lease liabilities recorded on the balance sheet is as follows:

Year	Operating Leases	Finance Leases
2023	\$ 20,326	\$ 8,775
2024	22,330	8,775
2025	24,333	5,852
2026	27,000	—
2027	32,000	—
Thereafter	154,667	—
Total minimum lease payments	280,656	23,402
Less: Amount of lease payments representing interest	52,747	1,314
Present value of future minimum lease payments	227,909	22,088
Less: Current portion	11,322	7,992
Long-term lease liabilities	\$ 216,587	\$ 14,096

As of December 31, 2022, operating lease payments exclude approximately \$3,700,000 of legally binding minimum lease payments for leases signed but not yet commenced. The Corporation entered into a new office lease commencing February 2023 for a five-year term. The lease term expires in April 2028 and requires monthly rental payments starting at approximately \$60,000. As of December 31, 2022, there were approximately \$190,000 in leasehold improvements related to this building. The right-of-use asset and lease liability will be approximately \$3,700,000.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements (Continued)

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, 2022, the Corporation had the following endowment funds:

	<u>Unrestricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Endowment funds</u>	\$ —	\$ 56,157	\$ 56,157

8. Net Assets

Net assets with donor restrictions consist of the following:

Endowment principal	\$ 48,610
Grants and contributions - subject to time restrictions	<u>1,148,546</u>
	<u>\$ 1,197,156</u>

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements *(Continued)*

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

Citi Group	\$ 9,738
Sandcastle Foundation	5,809
NHeLP	2,889
Emerson N. County	947
MODDC	455
St. Louis County Srv Fund	139
	<hr/>
	\$ 19,977
	<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 2022; therefore, no provision for income taxes has been made in the financial statements. The Corporation’s federal tax returns for tax years 2019 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 \$1,425,609 (3% of revenue, gains and other support) in 2022.

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 \$351,454 in 2022, 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 \$2,841,020 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. As of December 31, 2022, the Corporation has forgone \$922,510. 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 forgo 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, 2021 and 2022.
- \$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 2020 or 2021, which when added to previous amounts in the Cy Pres reserve brings the total reserve to \$1,500,000 at the end of 2021.

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.

LEGAL SERVICES OF EASTERN MISSOURI, INC.

Notes To Financial Statements *(Continued)*

14. Liquidity And Availability Of Financial Assets

The following reflects the Corporation'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. The Corporation generally maintains operating reserves to meet 4-6 months of operating expenses.

Current assets	\$ 49,041,951
Less:	
Client trust deposits	4,069
Prepaid expenses	285,125
Donor-restrictions for specific purposes	1,197,156
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>\$ 43,055,601</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.

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, 2022, and our report thereon dated April 24, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed 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 24, 2023

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, 2022

(With Summarized Financial Information For The Year Ended December 31, 2021)

	Legal Services Corporation Fund	Private Attorney Involvement	Pro Bono Innovation Fund	Rural Stipend Fund	General Endowment	Other Funds	2022 Total	2021 Total
Public Support And Revenues								
Contributions:								
Public support	\$ 208	\$ —	\$ —	\$ —	\$ —	\$ 509,480	\$ 509,688	\$ 472,852
United Way support	—	—	—	—	—	593,909	593,909	578,822
Grants:								
Government grants	1,981,375	346,803	126,316	10,000	—	40,441,171	42,905,665	6,795,825
Foundation grants	—	—	—	—	—	1,655,341	1,655,341	1,759,326
Other revenues:								
Donated services	—	998,842	—	—	—	—	998,842	1,043,471
Special events	—	—	—	—	—	139,550	139,550	155,955
Program income	—	—	—	—	—	453,029	453,029	13,800
Investment income	2,997	—	—	—	—	(365,905)	(362,908)	251,523
Other income	—	—	—	—	—	1,011	1,011	92
Total Public Support And Revenues	1,984,580	1,345,645	126,316	10,000	—	43,427,586	46,894,127	11,071,666
Expenses								
Program services	1,813,712	1,326,947	114,861	10,000	—	7,028,891	10,294,411	8,554,731
Supporting services - management and general	112,760	18,698	11,455	—	—	1,269,411	1,412,324	1,239,335
Fundraising and development	58,108	—	—	—	—	260,907	319,015	374,272
Depreciation	—	—	—	—	—	102,068	102,068	133,715
Total Expenses	1,984,580	1,345,645	126,316	10,000	—	8,661,277	12,127,818	10,302,053
Excess (Deficiency) Of Public Support And Revenues Over Expenses	—	—	—	—	—	34,766,309	34,766,309	769,613
Expiration Of Program And Time Restrictions	—	—	—	—	—	—	—	—
Increase (Decrease) In Fund Balance	—	—	—	—	—	34,766,309	34,766,309	769,613
Fund Balance - Beginning Of Year	—	—	—	—	48,610	14,711,814	14,760,424	13,990,811
Fund Balance - End Of Year	\$ —	\$ —	\$ —	\$ —	\$ 48,610	\$ 49,478,123	\$ 49,526,733	\$ 14,760,424

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, 2022

(With Summarized Financial Information For The Year Ended December 31, 2021)

	2022							2021	
	Basic Field Grant	Private Attorney Involvement	Covid Response Grant	Pro Bono Innovation Fund Grant	Rural Stipend	Total	Property	Grand Total	Grand Total
Support And Revenue									
Contributions:									
Public Support	\$ 208	\$ —	\$ —	\$ —	\$ —	\$ 208	\$ —	\$ 208	\$ —
Grants:									
Government grants	1,981,375	346,803	—	126,316	10,000	2,464,494	—	2,464,494	\$ 2,479,993
Donated services	—	998,842	—	—	—	998,842	—	998,842	1,043,471
Program income:									
Attorneys' fees	—	—	—	—	—	—	—	—	9,800
Investment income:									
Interest income	2,997	—	—	—	—	2,997	—	2,997	23
Total Support And Revenue	1,984,580	1,345,645	—	126,316	10,000	3,466,541	—	3,466,541	3,533,287
Expenses									
Salaries and related expenses:									
Lawyers	717,082	72,828	—	18,440	—	808,350	—	808,350	789,229
Para-professionals	621,533	138,168	—	47,749	—	807,450	—	807,450	634,097
Other	156,684	15,042	—	7,797	10,000	189,523	—	189,523	339,615
Employee benefits	343,914	53,100	—	19,965	—	416,979	—	416,979	441,366
Donated services	—	998,842	—	—	—	998,842	—	998,842	1,043,471
Total salaries and related expenses	1,839,213	1,277,980	—	93,951	10,000	3,221,144	—	3,221,144	3,247,778
Other expenses:									
Contracted services	35,228	2,535	—	28,509	—	66,272	—	66,272	48,475
Judicare	—	48,707	—	—	—	48,707	—	48,707	54,868
Equipment rental or lease	546	67	—	—	—	613	—	613	63
Computer maintenance	1,574	26	—	—	—	1,600	—	1,600	4,322
Insurance	3,073	1,161	—	—	—	4,234	—	4,234	8,108
Library	2,152	180	—	1,350	—	3,682	—	3,682	3,937
Litigation	9,214	1,848	—	—	—	11,062	—	11,062	7,039
Occupancy	33,035	8,375	—	—	—	41,410	—	41,410	37,160
Office supplies and expense	19,187	2,607	—	34	—	21,828	—	21,828	29,528
Professional fees	12,129	—	—	—	—	12,129	—	12,129	47,100
Program travel	5,370	58	—	631	—	6,059	—	6,059	1,160
Telephone	7,379	1,290	—	—	—	8,669	—	8,669	13,262
Training	16,164	437	—	1,676	—	18,277	—	18,277	9,122
Other direct expenses	316	374	—	165	—	855	—	855	21,365
Total other expenses	145,367	67,665	—	32,365	—	245,397	—	245,397	285,509
Total Expenses	1,984,580	1,345,645	—	126,316	10,000	3,466,541	—	3,466,541	3,533,287
Total Changes In Net Assets	—	—	—	—	—	—	—	—	—
Net Assets - Beginning Of Year	—	—	—	—	—	—	—	—	—
Net Assets - End Of Year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —