



Financial Statements

December 31, 2017 with Comparative Totals for
December 31, 2016

East River Legal Services Corporation

East River Legal Services Corporation

Table of Contents

December 31, 2017 with comparative totals for December 31, 2016

Independent Auditor’s Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses.....	5
Statements of Cash Flows	6
Notes to Financial Statements.....	7
Supplementary Information	
Statements of Support, Revenue and Expenses, and Changes in Net Assets for Legal Services Corporation Funds	13
Schedule of Expenditures of Legal Services Corporation Federal Awards	15
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Independent Auditor’s Report on Compliance for the Legal Services Corporation Program; Report on Internal Control Over Compliance Required by the Legal Services Corporation Act and Appropriations Riders	18
Schedule of Findings and Questioned Costs.....	21



Independent Auditor's Report

The Board of Directors
East River Legal Services Corporation
Sioux Falls, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of East River Legal Services Corporation (a non-profit corporation), which comprise the statement of financial position as of December 31, 2017 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.

Auditor's 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 statement 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East River Legal Services Corporation as of December 31, 2017, and the change in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the East River Legal Services Corporation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statements of support, revenue and expenses, and changes in net assets for Legal Services Corporation funds are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of Legal Services Corporation federal awards is required by the Legal Services Corporation Act and Appropriations Riders.

The statements of support, revenue and expenses, and changes in net assets for Legal Services Corporation funds and the schedule of expenditures of Legal Service Corporation federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated Report date, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 East River Legal Services Corporation'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 East River Legal Services Corporation's internal control over financial reporting and compliance.



Sioux Falls, South Dakota
April 30, 2018

East River Legal Services Corporation

Statements of Financial Position

December 31, 2017 with Comparative Totals as of December 31, 2016

Assets	2017	2016
Current Assets		
Cash	\$ 75,015	\$ 175,884
Client escrow funds	835	(11)
Accounts receivable	2,791	-
Grants receivable	8,367	29,665
Prepaid expenses	9,439	6,926
Total current assets	96,447	212,464
Property and Equipment		
Office and computer equipment	86,430	106,325
Furniture and fixtures	7,467	22,590
Law library	7,361	7,361
Leasehold improvements	-	20,746
	101,258	157,022
Less accumulated depreciation	(36,083)	(142,269)
Total property and equipment	65,175	14,753
Total Assets	\$ 161,622	\$ 227,217
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 7,700	\$ 18,027
Judicare payable	6,270	11,273
Client trust deposits	835	-
Accrued vacation and payroll taxes	16,941	86,809
Total current liabilities	31,746	116,109
Net Assets		
Unrestricted	(9,576)	19,833
Unrestricted property and equipment	53,725	14,709
Total unrestricted net assets	44,149	34,542
Temporarily restricted		
Legal Services Corporation, basic field grant	15,825	1,825
Legal Services Corporation, property and equipment	11,450	44
Funds other than Legal Services Corporation - purpose-restricted	58,452	74,697
Total temporarily restricted	85,727	76,566
Total net assets	129,876	111,108
Total Liabilities and Net Assets	\$ 161,622	\$ 227,217

East River Legal Services Corporation

Statements of Activities

Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted		Total	2017 Total	2016 Total
		Legal Services Corporation	Funds other than Legal Services Corporation			
Revenues, Gains, and Other Support						
Grants and contracts	\$ 113,000	\$ 428,301	\$ 203,572	\$ 631,873	\$ 744,873	\$ 607,636
Interest income	84	-	-	-	84	81
Other Income	19,448	(21)	-	(21)	19,427	12,100
Net assets released from restrictions - satisfaction of program restrictions	622,691	(402,874)	(219,817)	(622,691)	-	-
Total revenues, gains, and other support	755,223	25,406	(16,245)	9,161	764,384	619,817
Expenses						
Program services	659,443	-	-	-	659,443	548,292
Management and general	86,173	-	-	-	86,173	81,131
Total expenses	745,616	-	-	-	745,616	629,423
Changes in Net Assets	9,607	25,406	(16,245)	9,161	18,768	(9,606)
Net Assets, Beginning	34,542	1,869	74,697	76,566	111,108	120,714
Net Assets, Ending	\$ 44,149	\$ 27,275	\$ 58,452	\$ 85,727	\$ 129,876	\$ 111,108

East River Legal Services Corporation

Statements of Functional Expenses

Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	Program Services	Management and General	2017	2016
Personnel expenses				
Salaries - lawyers	\$ 156,249	\$ 34,449	\$ 190,698	\$ 206,075
Salaries - paralegals	66,177	18,131	84,308	49,456
Salaries - other	81,674	3,275	84,949	90,497
Employee benefits	99,443	15,786	115,229	102,204
Total personnel expenses	403,543	71,641	475,184	448,232
Other expenses				
Space and occupancy	53,239	9,395	62,634	53,013
Contract services to clients	-	-	-	9,598
Office supplies	24,337	4,295	28,632	15,769
Travel	12,979	-	12,979	2,367
Telephone	6,002	-	6,002	5,925
Audit	15,601	-	15,601	18,200
Library	912	-	912	887
Insurance	6,230	-	6,230	6,206
Advertising	9,075	-	9,075	2,982
Depreciation	4,769	842	5,611	2,948
Contract services to program	72,702	-	72,702	35,715
Dues and fees	6,220	-	6,220	1,746
Accounting contract services	25,327	-	25,327	-
Technology	12,384	-	12,384	-
Other	6,123	-	6,123	20,153
Litigation	-	-	-	5,682
Total other expenses	255,900	14,532	270,432	181,191
Total expenses	\$ 659,443	\$ 86,173	\$ 745,616	\$ 629,423

East River Legal Services Corporation

Statements of Cash Flows

Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 18,768	\$ (9,606)
Adjustments to reconcile change in net assets to cash from operating activities		
Depreciation	5,611	2,948
Loss on disposal of property	2,560	-
Change in assets and liabilities		
Client escrow funds	(846)	738
Accounts receivable	(2,791)	-
Grants receivable	21,298	(25,481)
Prepaid expenses	(2,513)	7,511
Accounts payable	(10,327)	-
Judicare payable	(5,003)	6,144
Client trust deposits	835	17,392
Accrued vacation and payroll taxes	(69,868)	85,780
Net Cash from Operating Activities	(42,276)	85,426
Investing Activities		
Purchase of property and equipment	(58,593)	(15,659)
Net Change in Cash	(100,869)	69,767
Beginning Cash	175,884	106,117
Ending Cash	\$ 75,015	\$ 175,884

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

East River Legal Services Corporation (the Organization) is a nonprofit corporation organized for the purpose of providing free legal assistance in civil proceedings or matters to financially eligible low income persons in eastern South Dakota. The Organization is funded primarily through grants from Legal Services Corporation (LSC), a nonprofit corporation established by Congress to administer a nationwide legal assistance program. A significant reduction in the level of LSC support, if this were to occur, would have a significant effect on the Organization's programs and activities.

Comparative Financial Information

The statements of activities and functional expenses 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 Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Grants Receivables

Grants receivable consist primarily of noninterest-bearing amounts due from granting entities. Management determines the allowance for uncollectable grants receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Grants receivable are written off when deemed uncollectable. At December 31, 2017 and 2016, the allowance was \$0.

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Property acquired with LSC funds is considered to be owned by the Organization while used in the program or in future authorized programs. However, LSC retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Property acquired with LSC funds is classified as temporarily restricted net assets and reclassified as unrestricted in amounts equal to related depreciation. Property acquired with other funds is generally classified as unrestricted.

Depreciation of property is computed on a straight-line basis over the following estimated useful lives:

Office and computer equipment	3-5 years
Furniture and fixtures	5-10 years
Leasehold improvements	5-7 years
Law library	5-20 years

Private Attorney Involvement

The Organization records a judicare liability and related expense for private attorney involvement contracts as time and costs are incurred by the private attorney (See Note 4).

Net Assets

The Organization classifies its net assets, revenue and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions on contributions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor or grant restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. There are no permanently restricted net assets.

Revenue and Support

The Organization recognizes grant funds from LSC as support on a straight-line basis over the grant period, as an approximation as to when the unconditional promise to receive the grant has been received. Funds remaining unexpended at the end of an accounting period are recorded as temporarily restricted LSC net assets, subject to LSC net asset carryover limitations (See Note 3). In accordance with LSC regulations, the Organization may use unspent funds in future periods as long as expenses incurred are in compliance with the specified terms of the LSC grant, as defined. LSC may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Organization with the terms of the grant. In addition, if the Organization terminates its LSC grant activities, all unexpended funds are to be returned to LSC.

The Organization recognizes temporarily restricted revenue from other grants received in the form of contributions when the unconditional promise to receive the grant is received. Revenue received from cost reimbursement contracts is recognized as services are provided in accordance with the terms of the contracts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of the Organization's mission.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates made by management.

Income Taxes

The Organization is organized as a South Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization had no unrelated business income from the year ended December 31, 2017.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact net assets.

Subsequent Events

The Organization has evaluated subsequent events through April 30, 2018, the date which these financial statements were available to be issued.

Note 2 - Summary of Funding

Legal Services Corporation

The Organization has been awarded a basic field grant, number 542026, from LSC of \$396,301 for the year ending December 31, 2017. In accordance with the affiliation agreement between the Organization and LSC, an amount equal to at least 12.5% of the basic field grant is allocated to the Private Attorney Involvement (PAI) program (See Note 4).

The level of support from LSC has a significant effect on the Organization's programs and activities, as the nature of legal assistance provided and the number of cases accepted is based on the level of funding. LSC funds can only be used for purposes authorized under the Legal Services Corporation Act of 1974.

South Dakota Department of Social Services

The South Dakota Department of Social Services, Office of Adult Services and Aging contracts with the Organization to provide legal services to South Dakotans over the age of fifty-nine years (Older Americans) who are economically or socially in need. The agreements provides for a monthly reimbursement of \$4,184 for the period of June 1, 2016 through May 31, 2018. The contracts provided revenue of \$50,202 for the year ended December 31, 2017. The Organization has \$8,367 receivable on this grant at December 31, 2017.

Equal Access to the Court Grant

The Organization has been awarded a grant from the South Dakota Equal Access to Our Court Commission to be used for general expenses in providing legal services to the poor in South Dakota. Revenue of \$38,000 was recognized for the year ended December 31, 2017.

Pro Bono

The Organization has received a grant from the Second Judicial Circuit Bar Association to be use for non-priority cases of financially eligible clients and for other administrative expense. Revenue of \$50,000 was recognized for the year ended December 31, 2017.

Minnehaha County

The Organization received a contract from the Minnehaha County of \$125,004, to provide legal representation for Abuse and Neglect cases. The contract funds payroll and expense related to the legal services for cases that are appointed. The contract term is July 1, 2016 through June 30, 2017, but was terminated effective April 25, 2017. Revenue of \$41,668 was recognized for the year ended December 31, 2017.

Technical Improvements Grants

The Organization has been awarded a grant from the South Dakota Bar Foundation of \$108,000 to be used for technological improvements and staffing. The grant award included an additional award for the purchase of mobile computing equipment and the accompanying accessories. Revenue of \$111,202 was recognized for the year ended December 31, 2017. An additional \$32,000 in Legal Services Corporation funds were received to be expended for staffing for the project.

Avera McKennan

The Organization has received a service agreement with Avera McKennan Hospital to establish legal guardianship (temporary or permanent) for up to fourteen clients for the period of one year beginning February 2017. Revenue of \$25,000 has been recognized for the year ended December 31, 2017.

Note 3 - Carryover of Net Assets

Under LSC regulations, the Organization is permitted to carryover LSC net assets, excluding property, equal to 10% of total LSC annualized support of \$325,470. With the approval of LSC, additional amounts up to 25% of direct payments to attorneys in the current year may be carried over as fund balance.

Net assets as of December 31, 2017, consist of the following:

LSC basic field grant, less property and equipment of \$11,450 in 2017	\$ 15,825
Net assets not subject to carryover limitations	
Funds other than LSC temporarily restricted funds	58,452
Unrestricted	(9,576)
Net investment in property	65,175
	114,051
Total net assets not subject to carryover limitations	114,051
Total net assets	\$ 129,876

Note 4 - Private Attorney Involvement

The private attorney involvement (PAI) program provides for the Organization to expend funds for legal services on behalf of persons who qualify for legal assistance but do not have access to the Organization’s attorneys. Such funds are distributed to the person’s attorney as costs are incurred for each particular case. The accrued liability for claims incurred for private attorney involvement represents the costs incurred for the cases in process. Judicare payable was \$6,270 at December 31, 2017, which represents estimated incurred expenditures, due to private attorneys for legal service on cases.

PAI costs and allocated expenses at December 31, 2017 were paid with LSC funds and non-LSC funds as follows:

PAI costs and allocated expenses	
Paid with LSC funds	\$ 70,831
Paid with non-LSC funds	5,500
	76,331
	\$ 76,331

PAI allocations by line item are as follows:

Personnel Expenses	
Salaries - other	\$ 14,943
Employee benefits	4,278
	19,221
Other Expenses	
Space and occupancy	2,416
Audit	602
Telephone	496
Litigation	4,726
Office supplies	1,966
Library	75
Insurance	240
Dues and fees	240
Accounting contract services	977
Technology	502
Contract services for program	44,870
	57,110
Total other expenses	57,110
Total PAI expenses	\$ 76,331

Note 5 - Lease Commitment

The Organization has entered into lease agreements for the rental of office space in Sioux Falls, South Dakota which expires in 2023. The lease for suite 300 contains a clause which allows the Organization to terminate the lease in the event they were to lose a substantial portion of its LSC funding. The termination clause can be exercised with ninety days minimum notice. Premature termination would result in a forfeiture of the Organization's security deposit of \$3,050. Lease expense for the year ending December 31, 2017 was \$60,460.

The future minimum lease payments under this lease are as follows:

Years Ending December 31,

2018	\$ 68,500
2019	69,820
2020	71,140
2021	72,460
2022	73,780
Thereafter	75,100
	430,800
	\$ 430,800



Supplementary Information
December 31, 2017 with Comparative Totals for
December 31, 2016

East River Legal Services Corporation

East River Legal Services Corporation

Statements of Support, Revenue and Expenses, and Changes in Net Assets for Legal Services Corporation Funds
Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	2017					2016	
	Basic Field Grant	Private Attorney Involvement	Technology Initiative Grant	Total	Property	Grand Total	Total
Support and Revenue							
Grants and contracts	\$ 325,470	\$ 70,831	\$ 32,000	\$ 428,301	\$ -	\$ 428,301	\$ 396,301
Interest income	-	-	-	-	-	-	81
Other gain (loss)	-	-	-	-	(21)	(21)	10,390
Total support and revenue	<u>325,470</u>	<u>70,831</u>	<u>32,000</u>	<u>428,301</u>	<u>(21)</u>	<u>428,280</u>	<u>406,772</u>
Personnel Expenses							
Salaries - lawyers	85,138	492	12,321	97,951	-	97,951	133,504
Salaries - other	33,641	10,415	-	44,056	-	44,056	64,485
Salaries - paralegals	34,420	4,036	15,511	53,967	-	53,967	43,727
Employee benefits	55,206	4,278	2,168	61,652	-	61,652	88,089
Total personnel expenses	<u>208,405</u>	<u>19,221</u>	<u>30,000</u>	<u>257,626</u>	<u>-</u>	<u>257,626</u>	<u>329,805</u>

East River Legal Services Corporation
Statements of Support, Revenue and Expenses, and Changes in Net Assets for Legal Services Corporation Funds
Year Ended December 31, 2017 with Comparative Totals for the Year Ended December 31, 2016

	2017				2016		
	Basic Field Grant	Private Attorney Involvement	Technology Initiative Grant	Total	Property	Grand Total	Total
Other Expenses							
Space and occupancy	\$ 29,011	\$ 2,416	\$ -	\$ 31,427	\$ -	\$ 31,427	\$ 53,013
Audit	7,226	602	-	7,828	-	7,828	3,844
Travel	11,969	-	2,000	13,969	-	13,969	1,785
Insurance	2,886	240	-	3,126	-	3,126	1,551
Telephone	2,780	232	-	3,012	-	3,012	2,785
Advertising	4,203	350	-	4,553	-	4,553	2,982
Office supplies	6,821	568	-	7,389	-	7,389	8,371
Depreciation	-	-	-	-	641	641	177
Other	2,615	-	-	2,615	-	2,615	229
Accounting contract services	11,731	977	-	12,708	-	12,708	-
Technology	6,020	502	-	6,522	-	6,522	-
Library	423	35	-	458	-	458	87
Dues and fees	2,881	240	-	3,121	-	3,121	1,746
Contract services to program	2,431	45,448	-	47,879	-	47,879	1,279
Total other expenses	<u>90,997</u>	<u>51,610</u>	<u>2,000</u>	<u>144,607</u>	<u>641</u>	<u>145,248</u>	<u>77,849</u>
Total expenses	<u>299,402</u>	<u>70,831</u>	<u>32,000</u>	<u>402,233</u>	<u>641</u>	<u>402,874</u>	<u>407,654</u>
Support and Revenue							
Over (under) Expenses	26,068	-	-	26,068	(662)	25,406	(882)
Transfer for property	(12,068)	-	-	(12,068)	12,068	-	-
Net Assets, Beginning	<u>1,825</u>	<u>-</u>	<u>-</u>	<u>1,825</u>	<u>44</u>	<u>1,869</u>	<u>2,751</u>
Net Assets, Ending	<u>\$ 15,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,825</u>	<u>\$ 11,450</u>	<u>\$ 27,275</u>	<u>\$ 1,869</u>

East River Legal Services Corporation
Schedule of Expenditures of Legal Services Corporation Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Expenditures
Legal Services Corporation	09.542026	\$ 370,233
Legal Services Corporation	Technology Initiative Grant	32,000
		<u>\$ 402,233</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of Legal Services Corporation federal awards includes the federal grant activity of East River Legal Services Corporation from the Legal Service Corporation grants. The information in this schedule is presented as required by the Legal Services Corporation Act and Appropriations Riders. Total federal expenditures for the Organization are under \$750,000. As a result, an audit in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Subpart F, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is not required.

Note 2 - Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 45, U.S. Code of Federal Regulations, Part 1630.3, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization's summary of significant accounting policies is presented in Note 1 in the Organization's basic financial statements.



**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
East River Legal Services Corporation
Sioux Falls, South Dakota

We have audited, 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, the financial statements of East River Legal Services Corporation (the Organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-A, 2017-B and 2017-C to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

East River Legal Services Corporation's Responses to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sioux Falls, South Dakota
April 30, 2018



Independent Auditor’s Report on Compliance for the Legal Services Corporation Program; Report on Internal Control Over Compliance Required by the Legal Services Corporation Act and Appropriations Riders

To the Board of Directors
East River Legal Services Corporation
Sioux Falls, South Dakota

Report on Compliance for the Legal Services Corporation Program

We have audited East River Legal Services Corporation’s (the Organization’s) compliance with the types of compliance requirements described in the *Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on the Legal Services Corporation’s federal program for the year ended December 31, 2017.

Management Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s Legal Services Corporation federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Legal Services Corporation Act and Appropriations Riders (LSC Act). Those standards and the LSC Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Legal Services Corporation federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Legal Services Corporation federal program. However, our audit does not provide a legal determination on the Organization’s compliance.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence about compliance regarding the cost standards and procedures and timekeeping requirement for payroll, benefit and other allocated costs as described in Finding 2017-002 for the Legal Services Corporation program nor were we able to satisfy ourselves as to East River Legal Service’s compliance with those requirements by other auditing procedures.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on compliance. Accordingly, we do not express an opinion on the compliance requirements referred to above that are applicable to Legal Services Corporation program that could have a direct and material effect for the year ended December 31, 2017.

The Organization's response to the noncompliance finding identified in our audit are described schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we consider the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the Legal Services Corporation federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its federal program and to test and report on internal control over compliance in accordance with the LSC Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-001 and Finding 2017-003 to be significant deficiencies.

The Organization's responses to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the LSC Act. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Sioux Falls, South Dakota
April 30, 2018

Financial Statement Findings

**Finding 2017-A Preparation of Financial Statements, Schedule of Expenditures of Legal Services Corporation Federal Awards, and Material Audit Adjustments
Material Weakness**

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements, the schedule of expenditures of Legal Services Corporation federal awards, and accompanying notes to the financial statements that are materially correct.

Condition: The Organization does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements, the schedule of expenditures of Legal Services Corporation federal awards, and accompanying notes to the financial statements. In addition, we proposed material audit adjustments that would not have been identified as a result of the Organization's existing internal controls; and therefore could have resulted in a material misstatement within the financial statements.

The board has not been able to monitor the financial status of the Organization due to unreliable internal financial statements of the Organization throughout the year.

Cause: There was turnover in the program administrator position during the year. The Organization does not have the resources necessary for the preparation of full disclosure financial statements.

Effect: Inadequate controls over financial reporting of the Organization result in the reasonable possibility that the Organization would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: Management and the Board should continually be aware of the financial reporting of the Organization and changes in reporting requirements and should ensure proper controls over financial reporting are implemented.

Views of Responsible Officials: We are in agreement.

**Finding 2017-B Segregation of Duties
Material Weakness**

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Condition: The Organization has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas of the accounting function. The Program Administrator handled multiple accounting functions, including posting transactions to the general ledger, preparing monthly reconciliations, preparing checks, posting manual adjusting journal entries and signing checks. However, checks do require dual signatures. Upon the program administrator's resignation in October 2017, the Organization contracted with an outside accounting firm to assist with the reporting functions.

Cause: The Organization has limited staff and cannot justify hiring an additional individual in order to better segregate duties.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect and correct misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Organization.

View of Responsible Officials: Management is in agreement.

Finding 2017-C Accounting for Net Assets and Expense Allocations
Material Weakness

Criteria: Grants or contracts with specified purpose restrictions should be supported by documentation of either expenditures incurred or time spent on the specified purpose. The accounting manual requires the employees to record their time entries by funding source.

Condition: In some cases, time allocations were not recorded consistently or accurately by the staff. Time incurred on grants and contracts was not tracked by funding sources throughout the year as required in the accounting manual to support the release of purpose restrictions. Unspent funds were not able to be monitored by management due to unreliable internal financial statements of the Organization during the year. However, evidence of legal cases handled was provided that indicated that work was performed.

Cause: There was turnover in the program administrator position during the year. Time spent on purpose restricted agreements was not released from temporarily restricted net assets.

Effect: Releases from temporarily restricted net assets were not supported by time-keeping records. As a result, expense allocations between funding sources were based on management's estimates.

Recommendation: We recommend that management implement procedures and control processes within the accounting manual to comply with time-keeping requirements. We further recommend that temporarily restricted net assets released from restrictions be supported by expenditures incurred or time spent on the specified purpose.

View of Responsible Officials: Management is in agreement.

Legal Services Corporation Awards Findings and Questioned Costs

**Finding 2017-001 Legal Services Corporation
CFDA #09.542026
Basic Field Grant**

**Cost Standards and Procedures
Significant Deficiency in Internal Control over Compliance**

Criteria: Allowable costs must be supported by appropriate documentation per 45 CFR §1630.3.

Condition: Management could not provide documentation for one expenditure to the grant.

Cause: Lack of conformity with designed controls.

Effect: Without adequate support, demonstrating that the costs comply with laws, regulations, and other compliance requirements is difficult.

Questioned Costs: \$125 for mileage reimbursement

Context: A non-statistical sample of 60 disbursements were tested, which accounted for \$21,664 out of \$186,198 of legal services program expenditures.

Repeat Finding from Prior Years: No.

Recommendation: We recommend that procedures and program requirements regarding support for disbursements be reviewed with applicable program employees to ensure that they are aware of grant requirements.

View of Responsible Officials: Management is in agreement

**Finding 2017-002 Legal Services Corporation
CFDA #09.542026
Basic Field Grant, Technology Initiative Grant**

**Cost Standards and Procedures/Timekeeping Requirement
Material Weakness in Internal Control over Compliance and
Disclaimer of Opinion Relating to Compliance**

Criteria: The Organization is required to have procedures in place to assure that federal awards are expended only for allowable costs in accordance with the cost standards and procedures. Per 45 CFR §1635.3, time records must be created contemporaneously and account for time by date on each case, matter, or supporting activity. Allowable costs per 45 CFR §1630.3 must be supported by appropriate documentation.

Condition: Management could not provide complete documentation for personnel time charged to the grant that met the requirements within 45 CFR §1635.3 requirements for personnel time and benefits coded to the grant. Total payroll and other allocated costs allocated to the grant were based on an estimated percentage of total hours worked on the grant for the year and was not supported in the time reporting system. All costs, with the exception of travel and contract services to program, were based on estimated time allocations.

Cause: Lack of completion of employee timesheets as required by the timekeeping requirements due to employee turnover and noncompliance with policy in some cases.

Effect: Without adequate support, demonstrating that the costs comply with laws, regulations, and other compliance requirements is difficult.

Questioned Costs: Due to the lack of detailed support for employee time, a complete determination was unable to be made as to the amount of questioned costs for the year.

Context: Three of the nine individuals tested for one month of time reporting had missing or incomplete time reported. However, cost allocated to the program was not based on the timekeeping records, due to the incomplete or inaccurate timekeeping. \$340,385 of the \$402,233 of expenditures were based on estimated time allocations.

Repeat Finding from Prior Year: No

Recommendation: We recommend that management implement procedures and control processes to comply with the federal requirements noted above.

Views of Responsible Officials: Management is in agreement.

**Finding 2017-003 Legal Services Corporation
CFDA #09.542026
Basic Field Grant**

**Compliance Supplement for Audits of LSC Recipients, Specific Requirements –
LSC Regulations
Significant Deficiency in Internal Control over Compliance**

Criteria: The Organization is required to adopt written policies and procedures to guide staff in complying with the federal requirements as required by the specific requirements of the LSC Regulations.

Condition: Management did not provide copies of their written policies and procedures for all new personnel upon hiring. New personnel were aware of the federal requirements through verbal instruction.

Cause: There was turnover of staff in the program executive director and program administrator position during the year. The Organization did not have consistent staffing during the year to ensure that new employees were given consistent orientations, information, and training.

Effect: Inadequate knowledge of LSC regulations could cause employees to engage in activities that would not be in compliance with Legal Services Corporation's regulations and therefore result in noncompliance for the Organization.

Questioned Costs: None

Context: Three of the seven personnel who were asked to sign policy confirmations indicated that they were not provided with the written policy and procedures manual and they were unaware of the existence of this manual.

Repeat Finding from Prior Year: No

Recommendation: We recommend that management implement procedures and control processes to ensure the written policy and procedures manual is provided to all employees and reviewed on a periodic basis.

Views of Responsible Officials: Management is in agreement.



ERLS
EAST RIVER LEGAL SERVICES

335 N. Main Ave., Suite 300, Sioux Falls, South Dakota,
57104 | Telephone (605) 336 – 9230 | Fax (605) 336 – 6919

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2017

Prepared by Management of
EAST RIVER LEGAL SERVICES



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2016-A

Initial Fiscal Year Finding Occurred: 2008

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Finding 2016-B

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The Organization has a limited number of office personnel and accordingly does not have adequate internal accounting controls in certain areas of the accounting function. The Program Administrator handled multiple accounting functions, including posting transactions to the general ledger, preparing monthly reconciliations, preparing checks, posting manual adjusting journal entries and signing checks. However, checks do require dual signatures.

Status: The Organization has evaluated the segregation of duties and have segregated duties to the extent possible with available staff. Management and the board of directors will continue to exercise oversight of the accounting functions. In addition, we have contracted with an independent accounting firm to assist with our accounting practices and mitigate the possibility of error.

Moving forward we are exploring plans either utilizing the ERLS Audit and Finance Committee or continued contracting with an outside accounting firm to further segregate duties and improve internal controls.

Finding 2016-C

Initial Fiscal Year Finding Occurred: 2016

Finding Summary: Account reconciliations were not prepared and allocation of payroll and other expenses between grants was not recorded. In some cases, the time allocations were not recorded consistently by the staff. Subsequent to year end and in advance of the audit, the organization obtained accounting assistance from a third party, however certain allocations between grant income and grant expenditures were not performed.



Status: Corrected. Allocation were completed by a contracted outside accountant firm after the resignation of the Program Administrator and in advance of the audit. However, audit adjustments were made to the allocations.

Finding 2016-001

Initial Fiscal Year Finding Occurred: 2016

Finding Summary: We noted one file in which the applicant was not eligible due to income being over the maximum allowable under the program. We noted one applicant whose file was incomplete, as it did not include a retainer agreement or a citizenship attestation statement.

Status: Corrected. The program upgraded its Case Management System (CMS) to LegalServer effective December 1, 2017 and implemented protocols in the new CMS to ensure compliance. In addition, management reviewed eligibility and documentation requirements.

CORRECTIVE ACTION PLAN

Finding 2017-A

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We therefore request that our auditors, Eide Bailly LLP, prepare these documents and the accompanying notes as a part of their annual audit. We have designated a member of management to review the materials. In addition, we have reviewed with and agree with the adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Finding 2017-B

Finding Summary: Eide Bailly LLP observed a lack of internal accounting controls in certain areas of the accounting function due to the limited number of office personnel.



CORRECTIVE ACTION PLAN (continued)

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: ERLS has hired a new Director of Finance and Administration in March 2018, with a strong accounting and financial analysis background. Now that this position is filled, the program can better prepare more meaningful reports and develop more reliable fiscal controls.

Currently, the limited size of the office makes hiring additional fiscal staff impractical. Moving forward we are exploring plans either utilizing the ERLS Audit and Finance Committee or continued contracting with an outside accounting firm to further segregate duties and improve internal controls.

Anticipated Completion Date: Ongoing

Finding 2017-C

Finding Summary: In some cases, time allocations were not recorded consistently or accurately by the staff. Time incurred on grants and contracts were not tracked by funding sources throughout the year as required in the accounting manual. However, evidence of legal cases handled was provided that indicated that work was performed.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: ERLS was aware of this issue and has already corrected the problem. The policy regarding timekeeping and salary has already been changed. ERLS is on a delayed pay schedule effective January 1, 2018 to ensure there are no errors in timekeeping. Per the new policy, all timekeeping must be complete and approved by management every two weeks. Salary is not paid until timekeeping is approved.

Anticipated Completion Date: Completed

Finding 2017-001

Finding Summary: ERLS management was not able to provide documentation for one expenditure to the grant totaling \$125.00.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: East River moved offices this year and there was change over in the Director of Finance position. It is management's belief this document was misplaced during this upheaval. Furthermore, the procedures for



submitting, processing, and filing expense reports was reviewed with staff to ensure future compliance.

Anticipated Completion Date: Completed

CORRECTIVE ACTION PLAN (continued)

Finding 2017-002

Finding Summary: Management could not provide complete documentation for personnel time charged to the grant that met the requirements within 45 CFR §1635.3 requirements for personnel time and benefits coded to the grant. Total payroll and other costs allocated to the grant were based an estimated percentage of total hours worked on the grant for the year and was not supported in the time reporting system.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: The program became aware of this issue in the fall of last year. In order to correct the issue, we have amended our timekeeping and payroll policies. Effective January 1, 2018, staff no longer receive pay until all timekeeping for the pay period is entered. We also shifted to a delayed pay schedule, which allows timekeeping to be reviewed and verified prior to pay day.

Anticipated Completion Date: Completed

Finding 2017-003

Finding Summary: ERLS did not provide copies of their written policies and procedures for all new personnel upon hiring. New personnel were aware of the federal requirements through verbal instruction.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: ERLS is currently in the process of drafting a new policy manual for all employees. The existing policy manual is quite old. This manual is available for all employees review on the office network. Once the new manual is completed, employees will have an opportunity to provide feedback prior to final authorization. After approval, the manual will be distributed and all employees will complete a verification that they have read and understand it.

Anticipated Completion Date: December 2018