



Financial Statements

December 31, 2019 with Comparative Totals for
December 31, 2018

East River Legal Services Corporation

East River Legal Services Corporation

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December 31, 2019 with comparative totals for December 31, 2018

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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, 2019 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 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 June 24, 2020, 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
June 24, 2020

East River Legal Services Corporation

Statements of Financial Position

December 31, 2019 with Comparative Totals as of December 31, 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 4,667	\$ 1,678
Client escrow funds	1,200	740
Accounts receivable	-	3,364
Grants and contracts receivable	118,473	28,152
Prepaid expenses	20,336	21,251
Total current assets	<u>144,676</u>	<u>55,185</u>
Property and Equipment		
Office and computer equipment	135,676	99,028
Furniture and fixtures	43,358	7,467
Law library	7,361	7,361
	<u>186,395</u>	<u>113,856</u>
Less accumulated depreciation	<u>(81,202)</u>	<u>(60,100)</u>
Total property and equipment	<u>105,193</u>	<u>53,756</u>
Total Assets	<u>\$ 249,869</u>	<u>\$ 108,941</u>
Liabilities and Net Assets		
Current Liabilities		
Line of credit	\$ 23,500	\$ -
Note payable - current portion	68,314	-
Accounts payable	28,495	17,280
Judicare payable	-	1,575
Client trust deposits	1,200	740
Accrued vacation and payroll taxes	31,636	41,772
Total current liabilities	<u>153,145</u>	<u>61,367</u>
Note Payable Less Current	<u>57,306</u>	<u>-</u>
Total Liabilities	<u>210,451</u>	<u>61,367</u>
Net Assets		
Without donor restrictions		
Undesignated	(87,466)	(44,225)
Invested in property and equipment	66,007	44,720
Total net assets without donor restrictions	<u>(21,459)</u>	<u>495</u>
With donor restrictions		
Legal Services Corporation, property and equipment	39,186	9,036
Funds other than Legal Services Corporation - purpose-restricted	21,691	38,043
Total net assets with donor restrictions	<u>60,877</u>	<u>47,079</u>
Total net assets	<u>39,418</u>	<u>47,574</u>
Total Liabilities and Net Assets	<u>\$ 249,869</u>	<u>\$ 108,941</u>

East River Legal Services Corporation

Statements of Activities

Year Ended December 31, 2019 with Comparative Totals for the Year Ended December 31, 2018

	Net Assets Without Donor Restrictions	Net Assets with Donor Restrictions			2019 Total	2018 Total
		Legal Services Corporation	Funds other than Legal Services Corporation	Total		
Revenues, Gains, and Other Support						
Grants and contracts	\$ 144,614	\$ 445,883	\$ 291,873	\$ 737,756	\$ 882,370	\$ 686,942
Interest income	12	-	-	-	12	5
Other income	35,446	-	-	-	35,446	48,571
Net assets released from restrictions - satisfaction of program restrictions	723,958	(415,733)	(308,225)	(723,958)	-	-
Total revenues, gains, and other support	904,030	30,150	(16,352)	13,798	917,828	735,518
Expenses						
Program services	737,038	-	-	-	737,038	650,709
Management and general	175,478	-	-	-	175,478	151,082
Fundraising and development	13,468	-	-	-	13,468	16,029
Total expenses	925,984	-	-	-	925,984	817,820
Changes in Net Assets	(21,954)	30,150	(16,352)	13,798	(8,156)	(82,302)
Net Assets, Beginning	495	9,036	38,043	47,079	47,574	129,876
Net Assets, Ending	<u>\$ (21,459)</u>	<u>\$ 39,186</u>	<u>\$ 21,691</u>	<u>\$ 60,877</u>	<u>\$ 39,418</u>	<u>\$ 47,574</u>

East River Legal Services Corporation

Statements of Functional Expenses

Year Ended December 31, 2019 with Comparative Totals for the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising and Development	2019	2018
Personnel Expenses					
Salaries - lawyers	\$ 258,872	\$ 34,871	\$ 8,531	\$ 302,274	\$ 262,123
Salaries - paralegals	45,715	281	224	46,220	48,888
Salaries - other	111,537	62,833	968	175,338	135,651
Employee benefits	81,913	17,135	1,873	100,921	116,042
Total personnel expenses	<u>498,037</u>	<u>115,120</u>	<u>11,596</u>	<u>624,753</u>	<u>562,704</u>
Other Expenses					
Space and occupancy	56,635	14,659	-	71,294	73,880
Office supplies	12,615	2,616	-	15,231	10,878
Travel	35,616	-	-	35,616	13,845
Telephone and internet	5,678	-	-	5,678	1,390
Audit	-	18,745	-	18,745	22,300
Library	4,281	-	-	4,281	508
Training	4,850	-	-	4,850	3,253
Insurance	6,225	-	-	6,225	6,536
Advertising	2,619	-	-	2,619	2,761
Depreciation	22,570	5,842	-	28,412	24,016
Contract services to program	43,337	-	1,556	44,893	44,086
Dues and fees	6,714	-	-	6,714	2,236
Accounting contract services	-	11,599	-	11,599	18,502
Technology	36,704	-	-	36,704	30,925
Consulting	-	3,325	-	3,325	-
Other	1,157	3,572	316	5,045	-
Total other expenses	<u>239,001</u>	<u>60,358</u>	<u>1,872</u>	<u>301,231</u>	<u>255,116</u>
Total expenses	<u>\$ 737,038</u>	<u>\$ 175,478</u>	<u>\$ 13,468</u>	<u>\$ 925,984</u>	<u>\$ 817,820</u>

East River Legal Services Corporation

Statements of Cash Flows

Year Ended December 31, 2019 with Comparative Totals for the Year Ended December 31, 2018

	2019	2018
Operating Activities		
Change in net assets	\$ (8,156)	\$ (82,302)
Adjustments to reconcile change in net assets to cash used by operating activities		
Depreciation	28,412	24,016
Change in assets and liabilities		
Client escrow funds	(460)	95
Accounts receivable	3,364	(573)
Grants and contracts receivable	(90,321)	(19,785)
Prepaid expenses	915	(11,812)
Accounts payable	(8,597)	9,580
Judicare payable	(1,575)	(4,695)
Client trust deposits	460	(95)
Accrued vacation and payroll taxes	(10,136)	24,831
Net Cash used by Operating Activities	(86,094)	(60,740)
Investing Activities		
Purchase of property and equipment	(60,037)	(12,597)
Financing Activities		
Net borrowings under line of credit	23,500	-
Proceeds from issuance of note payable	150,000	-
Principal payments on note payable	(24,380)	-
Net Cash from Financing Activities	149,120	-
Net Change in Cash	2,989	(73,337)
Beginning Cash	1,678	75,015
Ending Cash	\$ 4,667	\$ 1,678
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	\$ 2,017	\$ -
Supplemental Disclosure of Non-cash Investing Activity		
Accounts payable for property and equipment	\$ 19,812	\$ -

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. The Organization also receives a substantial amount through grants from the South Dakota State Department of Social Services for victims of crime. A significant reduction in the level 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 nor expenses by function. 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, 2018, from which the summarized information was derived.

Grants and Contracts Receivables

Grants and contracts receivable consists primarily of amounts due from governmental and private entities.

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 net assets with donor restrictions and reclassified as net asset without donor restriction in amounts equal to related depreciation. Property acquired with other funds is generally classified as net assets without donor restrictions.

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
Law library	5-20 years

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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the Board of Directors.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The Organization receives restricted federal funds, grants and contract revenue to provide legal assistance to individuals determined to be eligible in accordance with donor restrictions. Management believes restrictions have been met when eligible services have been provided. Accordingly, the funds are released from restriction at that time.

Revenue and Revenue Recognition

Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires, net assets are reclassified to net assets without donor restrictions. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. There were no contributions received as of December 31, 2019 that have not been recognized in the accompanying statement of activities.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Due to ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. 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. Funds remaining unexpended at the end of an accounting period are recorded as LSC net assets with donor restrictions, subject to LSC net asset carryover limitations (See Note 4). 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. There were no refundable advances or cost-reimbursable grants that have not been recognized as of December 31, 2019.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

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 and contracts 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 program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits, as well as space and occupancy, office supplies, depreciation, and other. These expenses are allocated on the basis of estimates of time and effort.

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, 2019.

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.

New Accounting Pronouncements

FASB has issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on prior year net assets with the implementation of ASU 2018-08.

As of January 1, 2019, the Organization adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 4,667
Grants receivable	<u>118,473</u>
	<u>\$ 123,140</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization prepares an annual budget to manage liquidity and determine general expenditures over the next twelve months.

The Organization maintains a \$80,000 line of credit (Note 8). As of December 31, 2019, \$56,500 remained available.

Note 3 - Summary of Funding

Legal Services Corporation

The Organization has been awarded a basic field grant, number 542026, from LSC of \$435,883 for the year ending December 31, 2019. 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 6).

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 and is included in revenue and support with donor restrictions.

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. Revenue without donor restrictions of \$64,368 was recognized for the year ended December 31, 2019. The Organization has \$20,121 receivable at December 31, 2019.

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 without donor restrictions of \$92,000 was recognized for the year ended December 31, 2019.

Victim of Crime Act Grant (VOCA)

The Organization has received a grant from South Dakota Department of Social Services to be used for providing services to victims of crime. Revenue with donor restrictions of \$230,028 was recognized for the year ended December 31, 2019. The Organization has \$88,352 receivable at December 31, 2019.

Pro Bono

The Organization has received a grant from the Second Judicial Circuit Bar Association to be used for non-priority cases of financially eligible clients and for other administrative expense. Revenue without donor restrictions of \$25,000 was recognized for the year ended December 31, 2019.

Technical Improvements Grants

The Organization was awarded a grant from the Legal Services Corporation to be expended for staffing on technological staffing costs. Revenue with donor restrictions of \$10,000 was recognized for the year ended December 31, 2019. The Organization has \$10,000 receivable at December 31, 2019.

Note 4 - Property and Equipment by Programs

Property and equipment are allocated to programs and management and general as follows:

	Cost	Accumulated Depreciation
LSC	\$ 60,600	\$ (21,414)
Other programs	98,555	(41,546)
Management and general	27,240	(18,242)
	<u>\$ 186,395</u>	<u>\$ (81,202)</u>

Depreciation expense is allocated to programs and management and general as follows:

LSC	\$ 4,263
Other programs	18,307
Management and general	5,842
	<u>\$ 28,412</u>

Note 5 - 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 \$375,950. With the approval of LSC, additional amounts up to 25% of direct payments to attorneys in the current year may be carried over as net assets.

Net assets as of December 31, 2019, consist of the following:

LSC basic field grant, less property and equipment of \$39,186 in 2019	<u>\$ -</u>
Net assets not subject to carryover limitations	
Funds other than LSC - purpose restricted	21,691
Undesignated	(87,466)
Invested in property and equipment	105,193
Total net assets not subject to carryover limitations	<u>39,418</u>
Total net assets	<u>\$ 39,418</u>

Note 6 - 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 \$0 at December 31, 2019, as the Organization transitioned from a contract based low bono model to a pro bono model in 2020.

PAI costs and allocated expenses at December 31, 2019 were paid with LSC funds and non-LSC funds as follows:

PAI costs and allocated expenses	
Paid with LSC funds	\$ 59,933
Paid with non-LSC funds	4,474
	<u>64,407</u>
	<u>\$ 64,407</u>

PAI allocations by line item are as follows:

Personnel Expenses	
Salaries - other	\$ 11,579
Employee benefits	1,979
	<u>13,558</u>
Total personnel expenses	
Other Expenses	
Space and occupancy	4,505
Audit	1,251
Travel	2,215
Telephone	988
Litigation	-
Office supplies	2,571
Advertising	149
Library	766
Insurance	398
Dues and fees	509
Accounting contract services	762
Technology	1,930
Other	396
Contract services for program	28,606
	<u>45,046</u>
Total other expenses	
Total PAI expenses	58,604
Purchase of property and equipment	<u>5,803</u>
Total PAI expenses and property and equipment purchases	<u>\$ 64,407</u>

Note 7 - Lease Commitment

The Organization has entered into a lease agreement for the rental of office space in Sioux Falls, South Dakota which expires in 2023. The lease 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, 2019 was \$70,380.

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

<u>Years Ending December 31,</u>	
2020	\$ 71,700
2021	73,020
2022	74,340
2023	<u>75,660</u>
	<u>\$ 294,720</u>

Note 8 - Line of Credit

The Organization has an \$80,000 revolving line of credit with a bank. Borrowings under the line bear interest at the prime rate plus 1.75% (6.50% at December 31, 2019). Interest payments are due monthly with the principal due at the maturity date of May 31, 2021. The collateral on the revolving line of credit includes all assets of the Organization.

Note 9 - Note Payable

Note payable consists of the following at December 31, 2019:

\$150,000 note payable with SD Bar Foundation, due in monthly installments of \$6,447, including interest at 3.00%, due 2021, unsecured	\$ 125,620
Less current portion	<u>(68,314)</u>
	<u>\$ 57,306</u>

Future maturities of the note payable are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 68,314
2021	<u>57,306</u>
	<u>\$ 125,620</u>

Note 10 - Retirement Plan

Effective January 1, 2018, the Organization maintains a 401(k) profit sharing plan on behalf of its employees through ABA Retirement Funds. Employees who are 21 years or older and have one month of service are eligible to participate. The Organization has a tiered matching contribution consisting of 100% of a participant's elective contribution not in excess of 3.00% and 50% of a participant's elective contributions over 3.00% but not in excess of 5.00%. Vesting occurs after two years of service. Employer contributions were \$14,768 for the year ended December 31, 2019.

Note 11 - Subsequent Events

The Organization has evaluated subsequent events through June 24, 2020, the date which these financial statements were available to be issued.

Subsequent to year-end, the effect of the world-wide coronavirus has necessitated the closure of the physical offices. Applications are still being taken over the internet and phone, but in-person meetings and all public outreach have stopped. This makes the delivery of services more difficult. The Organization is closely monitoring the situation and is also continuously monitoring its operations, liquidity, and capital resources. As of the date of issuance of these financial statements, the full impact to the Organization's financial positions is not known.

On April 16, 2020, the Organization was granted a \$131,600 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are deferred until the date on which the amount of forgiveness determined under the CARES Act is remitted to the lender. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

In June 2020, the Organization was awarded \$1,047,552, subject to the grant's terms and conditions, under the Victim of Crime Act (VOCA) grant to be used during the 2021 grant cycle.



Supplementary Information

December 31, 2019 with Comparative Totals for
December 31, 2018

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, 2019 with Comparative Totals for the Year Ended December 31, 2018

	2019				2018		
	Basic Field Grant	Private Attorney Involvement	Technology Initiative Grant	Total	Property	Grand Total	Total
Support and Revenue							
Grants and contracts	\$ 375,950	\$ 59,933	\$ 10,000	\$ 445,883	\$ -	\$ 445,883	\$ 443,321
Personnel Expenses							
Salaries - lawyers	139,061	2,017	-	141,078	-	141,078	160,300
Salaries - paralegals	16,898	37	-	16,935	-	16,935	26,937
Salaries - other	102,821	9,525	8,300	120,646	-	120,646	99,806
Employee benefits	47,001	1,979	1,700	50,680	-	50,680	70,374
Total personnel expenses	305,781	13,558	10,000	329,339	-	329,339	357,417

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, 2019 with Comparative Totals for the Year Ended December 31, 2018

	2019				2018		
	Basic Field Grant	Private Attorney Involvement	Technology Initiative Grant	Total	Property	Grand Total	Total
Other Expenses							
Space and occupancy	\$ 34,070	\$ 4,505	\$ -	\$ 38,575	\$ -	\$ 38,575	\$ 50,958
Audit	11,219	1,251	-	12,470	-	12,470	15,052
Travel	13,829	2,215	-	16,044	-	16,044	10,791
Insurance	2,968	398	-	3,366	-	3,366	4,548
Telephone	2,572	395	-	2,967	-	2,967	997
Advertising	1,233	149	-	1,382	-	1,382	1,979
Office supplies	7,806	797	-	8,603	-	8,603	7,084
Depreciation	-	-	-	-	4,263	4,263	2,414
Other	4,635	396	-	5,031	-	5,031	2,622
Accounting contract services	5,356	762	-	6,118	-	6,118	13,154
Technology	15,686	1,930	-	17,616	-	17,616	10,120
Library	1,859	289	-	2,148	-	2,148	346
Dues and fees	2,768	509	-	3,277	-	3,277	956
Contract services to program	8,698	26,976	-	35,674	-	35,674	35,738
Reallocation for excess expenditures to net assets without restrictions	(71,140)	-	-	(71,140)	-	(71,140)	(52,616)
Total other expenses	41,559	40,572	-	82,131	4,263	86,394	104,143
Total expenses	347,340	54,130	10,000	411,470	4,263	415,733	461,560
Support and Revenue Over (Under) Expenses	28,610	5,803	-	34,413	(4,263)	30,150	(18,239)
Transfer for Property	(28,610)	(5,803)	-	(34,413)	34,413	-	-
Net Assets, Beginning	-	-	-	-	9,036	9,036	27,275
Net Assets, Ending	\$ -	\$ -	\$ -	\$ -	\$ 39,186	\$ 39,186	\$ 9,036

East River Legal Services Corporation
 Schedule of Expenditures of Legal Services Corporation Federal Awards
 Year Ended December 31, 2019

Federal Grantor/Pass Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Expenditures
Legal Services Corporation	09.542026	\$ 401,470
Legal Services Corporation	Technology Initiative Grant	<u>10,000</u>
		<u>\$ 411,470</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. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

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, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No LSC federal financial assistance has been provided to a subrecipient.



**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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2020.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2019-001, that we consider to be a significant deficiency.

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 Response to Finding

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

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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, professional style.

Sioux Falls, South Dakota
June 24, 2020



**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, 2019.

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.

Opinion on the Legal Services Corporation Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Legal Services Corporation federal program for the year ended December 31, 2019.

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 considered 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 an 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.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
June 24, 2020

Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

LEGAL SERVICES CORPORATION PROGRAM

Internal control over Legal Services Corporation Program:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for Legal Services Corporation Program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Compliance Supplement for Audits of LSC Recipients:	No
Auditee qualified as low-risk auditee?	No

Financial Statement Findings

**2019-001 Preparation of Financial Statements, Schedule of Expenditures of Legal Services Corporation Federal Awards
Significant Deficiency**

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.

Cause: The Organization did not have the resources necessary for the preparation of full disclosure financial statements during the audit.

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 correct without the assistance of the auditors.

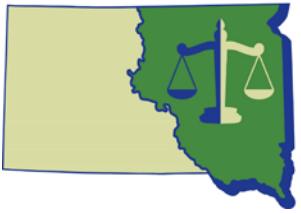
Recommendations: Management and the Board should continually be aware of the financial reporting of the Organization and changes in reporting requirements and should ensure proper controls over financial reporting are implemented.

Views of Responsible Officials: We are in agreement.



Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2019

Prepared by Management of
EAST RIVER LEGAL SERVICES



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2018-001

Initial Year Finding Occurred: 2008

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

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: ERLS revised the duties of the Director of Finance and Administration position in its Accounting Manual. Moving forward, this position will prepare draft financial statements, the schedule of expenditures of Legal Services Corporation federal awards, and accompanying notes to the financial statements.

Status: Assigning these duties to the Director of Finance and Administration in the accounting manual has been completed. Duties will be completed each year starting with December 31, 2020 audit.

Finding 2018-002

Initial Year Finding Occurred: 2012

Finding Summary: Eide Bailly LLP observed a lapse in oversight of the internal control process to obtain or document required bids or quotes as required by documented procedures. Contracts in excess of \$10,000 were typically approved in executive session of the board meetings and executive session minutes were not kept to support the approval.

Responsible Individuals: Brent Thompson, Executive Director

Corrective Action Plan: Program policies and procedures were greatly revised in 2018 and there has been a positive shift in the ERLS culture regarding financial controls. With such significant change comes increased potential for error during the implementation process. This was true for ERLS in that we failed to apply our new rules and standards to some of our oldest contracts and vendors (i.e. our independent auditors and landlord). As we continue to operate under our new policies these practices will become more and more routine and such mistakes will be eliminated.

Status: Completed

CORRECTIVE ACTION PLAN

Finding 2019-001

Finding Summary: Eide Bailly LLP prepared our financial statements, the schedule of expenditures of Legal Services Corporation federal awards, and accompanying notes to the financial statements.

Responsible Individuals: Brent Thompson, Executive Director and Kim Poitra, Director of Finance and Administration

Corrective Action Plan: ERLS revised the duties of the Director of Finance and Administration position in its Accounting Manual. Moving forward, this position will prepare the draft financial statements, the schedule of expenditures of Legal Services Corporation federal awards, and accompanying notes to the financial statements.

Anticipated Completion Date: Assigning these duties to the Director of Finance and Administration in the accounting manual has been completed. Duties will be completed each year starting with December 31, 2020 audit.