

**PRAIRIE STATE LEGAL
SERVICES, INC.**

FINANCIAL REPORT

December 31, 2015

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairie State Legal Services, Inc.
Rockford, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Prairie State Legal Services, Inc. (an Illinois not-for-profit corporation), which comprise the statement of financial position as of December 31, 2015, 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 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 organization'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 Prairie State Legal Services, Inc. as of December 31, 2015, and the changes in its net assets, functional expenses and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Prairie State Legal Services, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated April 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2016, on our consideration of Prairie State Legal Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie State Legal Services, Inc.'s internal control over financial reporting and compliance.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

April 14, 2016

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With Comparative Totals for 2014)

| ASSETS | 2015 | 2014 |
|--|--------------|--------------|
| Cash and cash equivalents | \$ 4,231,680 | \$ 4,489,362 |
| Support receivables, net | 2,023,044 | 1,879,653 |
| Prepaid expenses and other assets | 146,759 | 148,661 |
| Funds held in trust at Community Foundation of Northern Illinois | 216,686 | 233,342 |
| Client escrow deposits | 22,334 | 11,200 |
| Property and equipment, net | 200,946 | 263,424 |
| Total assets | \$ 6,841,449 | \$ 7,025,642 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 86,288 | \$ 95,339 |
| Accrued expenses | 606,212 | 621,581 |
| Client deposits | 22,334 | 11,200 |
| Refundable advances | 416,591 | 666,803 |
| Total liabilities | 1,131,425 | 1,394,923 |
| NET ASSETS | | |
| Unrestricted: | | |
| Board designated | 215,160 | 225,024 |
| Property and equipment | 200,946 | 251,424 |
| Other | 3,257,177 | 3,478,529 |
| Total unrestricted | 3,673,283 | 3,954,977 |
| Temporarily restricted: | | |
| Legal Services Corporation-property | - | 12,000 |
| Will County Legal Assistance Program, Inc. (WCLAP) | 207,230 | 206,749 |
| | 207,230 | 218,749 |
| Donor restricted | 1,829,511 | 1,456,993 |
| Total temporarily restricted | 2,036,741 | 1,675,742 |
| Total net assets | 5,710,024 | 5,630,719 |
| Total liabilities and net assets | \$ 6,841,449 | \$ 7,025,642 |

The accompanying notes are an integral part of these financial statements.

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015
(With Comparative Totals for 2014)

| | Unrestricted | | | | | Temporarily Restricted | | | | Total | |
|--|------------------------|------------------|------------------------|------------------|-------------------|----------------------------|------------|------------------|----------------|-------------------|-------------------|
| | Fee For Service Grants | Board Designated | Property and Equipment | Other | Total | Legal Services Corporation | WCLAP | Donor Restricted | Total | 2015 | 2014 |
| SUPPORT AND REVENUE: | | | | | | | | | | | |
| Federal Grants: | | | | | | | | | | | |
| Legal Services Corporation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,790,850 | \$ - | \$ - | \$ 3,790,850 | \$ 3,790,850 | \$ 3,614,982 |
| Older Americans Act - Title III | 670,835 | - | - | - | 670,835 | - | - | - | - | 670,835 | 706,436 |
| HIV grants | 179,052 | - | - | - | 179,052 | - | - | - | - | 179,052 | 171,138 |
| Legal Assistance for Victims | 145,174 | - | - | - | 145,174 | - | - | - | - | 145,174 | 170,826 |
| Crime Victim Assistance | 257,973 | - | - | - | 257,973 | - | - | - | - | 257,973 | 262,196 |
| Housing & Urban Development | 366,497 | - | - | - | 366,497 | - | - | - | - | 366,497 | 407,539 |
| Community Development | 172,869 | - | - | - | 172,869 | - | - | - | - | 172,869 | 138,603 |
| Other Grants | 183,489 | - | - | - | 183,489 | - | - | - | - | 183,489 | 189,433 |
| State Grants: | | | | | | | | | | | |
| Illinois Equal Justice Foundation | 326,933 | - | - | - | 326,933 | - | - | - | - | 326,933 | 290,400 |
| Illinois Attorney General | 1,148,309 | - | - | - | 1,148,309 | - | - | - | - | 1,148,309 | 1,600,319 |
| Other Grants | 197,430 | - | - | - | 197,430 | - | - | - | - | 197,430 | 224,907 |
| Miscellaneous grants | 123,266 | - | - | - | 123,266 | - | - | 269,809 | 269,809 | 393,075 | 396,292 |
| United Way allocations | - | - | - | - | - | - | - | 768,473 | 768,473 | 768,473 | 770,576 |
| Lawyers Trust Fund of Illinois | - | - | - | - | - | - | - | 2,102,500 | 2,102,500 | 2,102,500 | 1,725,000 |
| Cy Pres awards | - | - | - | 317 | 317 | - | - | - | - | 317 | 7,308 |
| Contributions, net of provision for uncollectible pledges | - | - | - | 440,218 | 440,218 | - | - | 17,320 | 17,320 | 457,538 | 485,504 |
| Special events - fundraising | - | - | - | 57,273 | 57,273 | - | - | - | - | 57,273 | 49,533 |
| Donated services and materials | - | - | - | 60,433 | 60,433 | - | - | - | - | 60,433 | 38,502 |
| Interest and dividends | - | - | - | 7,589 | 7,589 | 750 | 481 | - | 1,231 | 8,820 | 8,561 |
| Miscellaneous revenue | - | - | - | 7,994 | 7,994 | 240 | - | - | 240 | 8,234 | 25,951 |
| Unrealized gain (loss) on investment securities, net of fees | - | (1,097) | - | - | (1,097) | - | - | (293) | (293) | (1,390) | 7,629 |
| Gain on involuntary conversion | - | - | - | 6,590 | 6,590 | - | - | - | - | 6,590 | - |
| Net assets released from restrictions: | | | | | | | | | | | |
| Satisfaction of equipment acquisition restrictions | - | - | 12,934 | - | 12,934 | - | - | (12,934) | (12,934) | - | - |
| Satisfaction of donor restrictions for employee law school loans | - | - | - | 16,792 | 16,792 | - | - | (16,792) | (16,792) | - | - |
| Satisfaction of program restrictions | - | - | 12,000 | 3,791,840 | 3,803,840 | (3,803,840) | - | - | (3,803,840) | - | - |
| Expiration of time restrictions | - | - | - | 2,764,332 | 2,764,332 | - | - | (2,764,332) | (2,764,332) | - | - |
| Total support and revenue | 3,771,827 | (1,097) | 24,934 | 7,153,378 | 10,949,042 | (12,000) | 481 | 363,751 | 352,232 | 11,301,274 | 11,291,635 |
| EXPENSES: | | | | | | | | | | | |
| Program services | 3,160,916 | - | 65,815 | 6,411,408 | 9,638,139 | - | - | - | - | 9,638,139 | 9,695,140 |
| Management and general | 346,764 | - | 6,490 | 695,562 | 1,048,816 | - | - | - | - | 1,048,816 | 916,762 |
| Fund raising | 264,147 | - | 3,107 | 267,760 | 535,014 | - | - | - | - | 535,014 | 554,338 |
| Total expenses | 3,771,827 | - | 75,412 | 7,374,730 | 11,221,969 | - | - | - | - | 11,221,969 | 11,166,240 |
| Increase (decrease) in net assets | - | (1,097) | (50,478) | (221,352) | (272,927) | (12,000) | 481 | 363,751 | 352,232 | 79,305 | 125,395 |
| Other changes in net assets: | | | | | | | | | | | |
| Transfer between funds | - | (8,767) | - | - | (8,767) | - | - | 8,767 | 8,767 | - | - |
| Net assets, beginning of year | - | 225,024 | 251,424 | 3,478,529 | 3,954,977 | 12,000 | 206,749 | 1,456,993 | 1,675,742 | 5,630,719 | 5,505,324 |
| Net assets, end of year | \$ - | \$ 215,160 | \$ 200,946 | \$ 3,257,177 | \$ 3,673,283 | \$ - | \$ 207,230 | \$ 1,829,511 | \$ 2,036,741 | \$ 5,710,024 | \$ 5,630,719 |

The accompanying notes are an integral part of these financial statements.

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015
(With Comparative Totals for 2014)

| | Program Services | Management and General | Fund Raising | Total | |
|--|---------------------|------------------------------|-----------------|--------------|--------------|
| | | | | 2015 | 2014 |
| Salaries and wages: | | | | | |
| Lawyers | \$ 4,852,358 | \$ 394,483 | \$ 67,365 | \$ 5,314,206 | \$ 5,293,358 |
| Non-lawyers | 1,487,978 | 310,741 | 284,503 | 2,083,222 | 2,082,122 |
| Employee benefits | 1,668,172 | 180,678 | 79,942 | 1,928,792 | 1,898,336 |
| Consultant and professional services (including private attorney involvement) | 58,824 | 25,325 | - | 84,149 | 79,282 |
| Contract services | 96,354 | 11,806 | 20,980 | 129,140 | 54,934 |
| Subgrants | - | - | - | - | 32,932 |
| Travel and training | 201,666 | 22,311 | 13,874 | 237,851 | 251,765 |
| Space and occupancy | 674,188 | 44,135 | 21,855 | 740,178 | 726,588 |
| Office supplies | 104,694 | 13,906 | 6,511 | 125,111 | 152,540 |
| Telephone/Internet | 127,903 | 17,314 | 2,720 | 147,937 | 147,430 |
| Library | 111,856 | - | - | 111,856 | 106,096 |
| Postage | 35,019 | 2,645 | 1,288 | 38,952 | 41,812 |
| Equipment rental and maintenance | 54,225 | 10,910 | 5,172 | 70,307 | 77,250 |
| Insurance | 30,828 | 2,098 | 743 | 33,669 | 32,733 |
| Depreciation | 65,815 | 6,490 | 3,107 | 75,412 | 74,947 |
| Miscellaneous | 68,259 | 5,974 | 26,954 | 101,187 | 114,115 |
| | \$ 9,638,139 | \$1,048,816 | \$ 535,014 | \$11,221,969 | \$11,166,240 |

The accompanying notes are an integral part of these financial statements.

PRAIRIE STATE LEGAL SERVICES, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015
(With Comparative Totals for 2014)

| | 2015 | 2014 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 79,305 | \$ 125,395 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 75,412 | 74,947 |
| Unrealized (gain) loss on investment securities, net of fees | 1,390 | (7,629) |
| Gain on involuntary conversion | (6,590) | - |
| Provision for uncollectible pledges | 5,202 | 1,814 |
| Change in assets and liabilities: | | |
| Support receivables, net | (148,593) | (39,655) |
| Prepaid expenses and other assets | 1,902 | (6,577) |
| Client escrow deposits | (11,134) | 40,464 |
| Accounts payable | (9,051) | (55,385) |
| Accrued expenses | (15,369) | 173,537 |
| Client deposits | 11,134 | (40,464) |
| Refundable advances | (250,212) | 89,996 |
| Net cash provided by (used in) operating activities | (266,604) | 356,443 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investment securities | 15,266 | 16,700 |
| Purchase of investment securities - donor restricted | - | (1,000) |
| Insurance proceeds from involuntary conversion | 6,590 | - |
| Purchase of property and equipment | (12,934) | (38,748) |
| Net cash provided by (used in) investing activities | 8,922 | (23,048) |
| Change in cash and cash equivalents | (257,682) | 333,395 |
| Cash and cash equivalents: | | |
| Beginning of year | 4,489,362 | 4,155,967 |
| End of year | \$ 4,231,680 | \$ 4,489,362 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH OPERATING ACTIVITIES | | |
| Revenue and expenses recorded on donated services | \$ 60,433 | \$ 38,502 |

The accompanying notes are an integral part of these financial statements.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations:

Prairie State Legal Services, Inc. (PSLS/Organization) is an Illinois not-for-profit corporation since May, 1977, providing legal assistance in non-criminal proceedings or legal matters to low-income and elderly persons in Northern and Central Illinois. PSLS is principally funded through the Legal Services Corporation (LSC) awards, Lawyers Trust Fund of Illinois awards, contributions, grants, and the United Way.

A summary of the Organization's significant accounting policies follows:

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

Financial statement presentation:

The Organization may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and the changes therein are classified and reported as follows:

Unrestricted net assets:

Net assets that are not subject to donor-imposed stipulations are unrestricted. Grants and contract support received for services provided to eligible persons are recognized to the extent expenses are incurred. Excess funds received and not spent under these grants or contracts are reflected as refundable advances. In addition, the Board of Directors has designated certain unrestricted net assets for future use.

Temporarily restricted net assets:

Legal Services Corporation (LSC) - To provide support for organizations offering civil legal advice, education and representation for persons who meet federal poverty guidelines as annually defined by the LSC. LSC funds cannot be used for criminal, abortion or military cases and certain other prohibited cases. Also, funds may be used for capital expenditures and other items subject to restrictions.

Donor restricted - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Financial statement presentation (Continued):

Permanently restricted net assets:

Net assets that are subject to donor-imposed stipulations that the donations are maintained permanently by the Organization are permanently restricted. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general purposes. There were no permanently restricted assets at year end.

Cash and cash equivalents:

For purposes of reporting the statements of cash flows, PSLs includes all cash accounts and certificates of deposit, which are not subject to significant withdrawal restrictions or penalties, as cash and cash equivalents on the accompanying Statement of Financial Position. Throughout the year, the Organization may have amounts on deposit with financial institutions in excess of those insured by FDIC. Management does not believe that this concentration represents any significant risk to the Organization.

Certificates of deposit included in cash and cash equivalents were \$2,222,991 and \$2,222,488 as of December 31, 2015 and 2014, respectively. The certificates bear interest ranging from .14989% to .25% and .15% to .25% as of December 31, 2015 and 2014, respectively, and have initial maturities ranging from six to twelve months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Support receivables:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give to be received more than one year from December 31 are recorded at the present value of their net realizable value, using a risk-free interest rate applicable to the year in which the promises are received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the calendar year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restricted contribution expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible support. The allowance is based on prior years' experience and management's analysis of specific promises to give.

Investments:

The Organization has managed investments through an agreement with the Community Foundation of Northern Illinois (CFNI). The Organization shares in CFNI's pooled investments based on pro rata share of invested dollars. These investments are valued at fair value as provided by CFNI, which represents the market value of the underlying investments in the pool. CFNI states investments in mutual funds are recorded at readily available quoted market values. Investments in

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments (Continued):

alternative investments are reflected at net asset value per share (NAV) as reported by the fund managers or general partners, and may differ significantly from the values that would have been reported had a ready market for these securities existed. The CFNI alternative investments consist of an open-ended private investment company, a real estate investment partnership and a limited partnership invested in commodity-related derivative instruments. CFNI, with the assistance of an investment consultant who does not participate in managing the alternative investment funds, has reviewed and evaluated the fair values provided by the alternative investment fund managers and agrees with the valuation methods and assumptions used in determining fair value. Unrealized gains (losses) reported include changes in the fair value of the alternative investments held by CFNI. Earnings (losses) are allocated to the Organization based on the pro rata invested dollars.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and such changes could be material in relation to amounts reported in the Statement of Financial Position.

Accounting principles generally accepted in the United States of America (U.S. GAAP) establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under U.S. GAAP are described below:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liabilities either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The table in Note 3 sets forth the level within the fair value hierarchy that the Organization's CFNI investment assets fall at year end.

Client escrow deposits:

Client funds received by PSLS, acting as a trustee agent, are maintained in separate, interest-bearing checking accounts in the name of the Organization. These funds are restricted to client-related expense.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Property and equipment:

Property and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|---|--------------|
| Furniture and equipment, including software | 4 - 5 |
| Leasehold improvements | 5 - 10 |

All property and equipment acquired with LSC funds is considered to be owned by PSLs 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.

The Organization's policy is to capitalize leasehold improvements with a cost of \$2,500 or greater and a useful life of more than one year and to capitalize property and equipment with a unit cost of \$2,500 or greater and a useful life of more than one year.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

The Organization reviews its fixed assets to evaluate prominent events or changes in circumstances affecting them to determine whether impairment has occurred. Fixed assets generally should be considered impaired if both (a) the decline in service utility of the equipment is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the fixed asset. To date, the Organization has not recorded any fixed asset impairment changes.

Refundable advances:

Refundable advances primarily consist of service revenues that have been restricted as to their use for particular operating purposes, and accordingly are included in other restricted funds. These funds are recognized as revenue when PSLs has incurred expenditures compliant with the applicable restriction.

Donated services and other noncash assets:

The Organization records support for contributed professional services when performed. Contributed professional services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Support from donated legal services for 2015 and 2014 in the amount of \$60,433 and \$38,502, respectively, has been recognized in the accompanying financial statements.

PRAIRIE STATE LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Donated services and other noncash assets:

Donations of marketable securities and other noncash assets are recognized as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent any explicit donor-imposed time requirement, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Cost allocation:

Costs are charged on a direct functional basis whenever practical. When direct charges cannot be determined, the costs are allocated on the basis of management's estimated proportional use of the service provided or resource consumed.

Income taxes:

PSLS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code (Code) and from State of Illinois income taxes. In addition, PSLS has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

Subsequent events:

These financial statements have not been updated for subsequent events occurring after April 14, 2016, which is the date these financial statements were available to be issued. PSLS has no responsibility to update these financial statements for events and circumstances occurring after this date.

Comparative Amounts:

The amounts shown for 2014 in the accompanying Statements of Financial Position, Activities, Functional Expenses, and Cash Flows, are included to provide a basis for comparison with 2015 and are not intended to present all information necessary for fair presentation of 2014 information in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the comparative totals were derived.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 2. Support Receivables, Net

Support receivables, net consist of the following at December 31:

| | 2015 | 2014 |
|---------------------------------------|-------------|-------------|
| Lawyer's Trust Fund of Illinois | \$928,750 | \$862,500 |
| Campaign for legal services | 72,286 | 53,684 |
| United Way agencies | 412,521 | 414,554 |
| Other, program services reimbursement | 620,384 | 554,610 |
| | 2,033,941 | 1,885,348 |
| Allowance for uncollectible support | (10,897) | (5,695) |
| | \$2,023,044 | \$1,879,653 |

Estimates of the timing of fulfillment of the conditions, and consequently of recognizing the contributions, are as follows:

| | 2015 | 2014 |
|------------------------|-------------|-------------|
| Less than one year | \$2,033,941 | \$1,885,348 |
| One year to five years | - | - |
| Beyond five years | - | - |
| | \$2,033,941 | \$1,885,348 |

Note 3. Investments

The Organization's investments are reported at fair value in the accompanying Statement of Financial Position. The fair value of the CFNI investment is based upon the Organization's proportionate ownership of pooled investments held by CFNI and the fair value of the underlying investments held in the pool as provided by CFNI.

| | | Fair value measurements at reporting date using: | | |
|-------------------------|-------------------|--|--|--|
| | | Quoted prices in active markets for identical inputs (level 1) | Significant observable inputs (level 2) | Significant unobservable inputs (level 3) |
| <u>CFNI Investments</u> | <u>Fair value</u> | | | |
| 12/31/2015 | \$ 216,686 | \$ - | \$ - | \$ 216,686 |
| 12/31/2014 | \$ 233,342 | \$ - | \$ - | \$ 233,342 |

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 3. Investments (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) as of December 31, are as follows:

| | 2015 | 2014 |
|--|------------------|------------------|
| Beginning balance | \$233,342 | \$241,413 |
| Unrealized gain | 968 | 10,193 |
| Donor restricted cash deposit | - | 1,000 |
| Satisfaction of donor restrictions for employee law school loans | (15,266) | (16,700) |
| Investment management fees | (2,358) | (2,564) |
| Ending balance | <u>\$216,686</u> | <u>\$233,342</u> |

Note 4. Property and Equipment, Net

Property and equipment, net consists of the following at December 31:

| | 2015 | 2014 |
|---|------------------|------------------|
| Furniture and equipment, including software | \$726,432 | \$730,980 |
| Leasehold improvements | 190,302 | 190,302 |
| | <u>916,734</u> | <u>921,282</u> |
| Less accumulated depreciation | 715,788 | 657,858 |
| | <u>\$200,946</u> | <u>\$263,424</u> |

Depreciation expense for the years ended December 31, 2015 and 2014 was \$75,412 and \$74,947, respectively.

PRAIRIE STATE LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 5. Accrued Expenses

Accrued expenses are as follows as of December 31:

| | 2015 | 2014 |
|---------------------|-----------|-----------|
| Retirement benefits | \$246,506 | \$252,456 |
| Payroll expense | 313,409 | 313,565 |
| Other | 46,297 | 55,560 |
| | \$606,212 | \$621,581 |

Note 6. Other Donor Restrictions on Net Assets

Temporarily other donor restricted net assets are available for the following purposes or periods as of December 31:

| | 2015 | 2014 |
|--|-------------|-------------|
| For periods after December 31 | \$1,673,131 | \$1,268,685 |
| For eligible employee law school loans | - | 8,319 |
| For specific program expenses | 156,380 | 179,989 |
| | \$1,829,511 | \$1,456,993 |

Note 7. Sub-Grant Agreements

Sub-grant agreements were entered into with various other entities. Support paid to these entities totaled \$0 and \$32,932 for the years ended December 31, 2015 and 2014, respectively.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Note 8. Lease Commitments and Rental Expense

Prairie State Legal Services, Inc. leases office space under various non-cancelable long-term lease agreements. The total minimum rental commitment under these leases as of December 31, 2015 is \$2,909,623, which is due as follows:

Year Ending December 31:

| | |
|------------|-----------|
| 2016 | \$612,754 |
| 2017 | 547,261 |
| 2018 | 534,462 |
| 2019 | 462,700 |
| 2020 | 254,132 |
| Thereafter | 498,314 |

\$2,909,623

Total rental expense for the years ended December 31, 2015 and 2014 was approximately \$626,000 and \$616,000, respectively.

Note 9. Concentration of Support and Contingency

Approximately 34% and 32% of the Organization's support for the years ended December 31, 2015 and 2014, respectively, came from Legal Services Corporation (LSC), a not-for-profit corporation established and funded by the U.S. Government to administer a nationwide legal assistance program. Approximately 19% and 15% of the Organization's support for the years ended December 31, 2015 and 2014, respectively, came from Lawyers Trust Fund of Illinois (LTF). Any substantial loss of funding from LSC and/or LTF could significantly affect the Organization's range of program services provided.

Federal and state grants-in-aid received by the Organization are subject to audit by grantor agencies. If grant revenues are received for expenditures which are subsequently disallowed, the Organization may be required to repay the revenues. In the opinion of management, liabilities resulting from such disallowed expenditures, if any, will not be material.

Note 10. Retirement Plan

The Organization has established a 403(b) retirement plan which covers all full-time employees. Employees become eligible for the plan upon initial employment with the Organization and are eligible to contribute employee elective deferrals. The plan was amended effective January 1, 2009 to institute an employer match on employee elective deferrals and for the plan to accept employer contributions for employees with one year of eligible service, defined as one thousand hours or more of service for an active employee within the preceding twelve months. The total amount contributed by the employer, including the elective deferral match was \$442,063 and \$436,938 for the years ended December 31, 2015 and 2014, respectively.