

**PRAIRIE STATE LEGAL
SERVICES, INC.**

FINANCIAL REPORT

December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Prairie State Legal Services, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie State Legal Services, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Prairie State Legal Services, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Prairie State Legal Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Prairie State Legal Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, the entity adopted new accounting guidance with respect to leases in 2022, as required by the provisions of FASB Accounting Standards Update 2016-02. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Prairie State Legal Services, Inc.'s 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2023 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 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 Prairie State Legal Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie State Legal Services, Inc.'s internal control over financial reporting and compliance.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

April 17, 2023

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF FINANCIAL POSITION

December 31, 2022
(With Comparative Totals for 2021)

ASSETS	2022	2021
Cash and cash equivalents	\$ 7,381,270	\$ 7,040,977
Support receivables, net	6,156,105	5,018,750
Prepaid expenses and other assets	295,349	337,100
Funds held in trust at Community Foundation of Northern Illinois	314,188	360,276
Client escrow deposits	5,078	215,486
Property and equipment, net	35,975	70,959
Operating lease right-of-use assets	4,394,981	-
Total assets	\$ 18,582,946	\$ 13,043,548
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 90,782	\$ 56,610
Accrued expenses	1,394,973	1,208,039
Operating lease liabilities	4,583,869	170,008
Client deposits	5,078	215,486
Refundable advances	47,064	607,530
Total liabilities	6,121,766	2,257,673
 NET ASSETS		
Without donor restrictions:		
Board designated	314,188	360,276
Property and equipment	35,975	70,959
Other	8,549,748	7,301,756
Total without donor restrictions	8,899,911	7,732,991
With donor restrictions:		
Will County Legal Assistance Program, Inc. (WCLAP)	194,415	193,185
Donor restricted	3,366,854	2,859,699
Total with donor restrictions	3,561,269	3,052,884
Total net assets	12,461,180	10,785,875
Total liabilities and net assets	\$ 18,582,946	\$ 13,043,548

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

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2022
(With Comparative Totals for 2021)

	Without donor restrictions				With donor restrictions				Total
	Fee for Service Grants	Board Designated	Property and Equipment	Other	Total	Legal Services Corporation	WCLAP	Donor Restricted	
SUPPORT AND REVENUE:									
Federal Grants:									
Legal Services Corporation	\$ 932,564	- \$	- \$	- \$	932,564	4,859,293	- \$	- \$	\$ 4,859,293
Older Americans Act - Title III	-	-	-	-	-	-	-	-	-
HIV grants	177,200	-	-	-	177,200	-	-	-	-
Legal Assistance for Victims	187,685	-	-	-	187,685	-	-	-	-
Crime Victim Assistance	2,725,674	-	-	-	2,725,674	-	-	-	-
Housing & Urban Development	372,500	-	-	-	372,500	-	-	-	-
Community Development	609,956	-	-	-	609,956	-	-	-	-
Other Grants	870,534	-	-	-	870,534	-	-	-	-
State Grants:									
Illinois Equal Justice Foundation	1,977,561	-	-	-	1,977,561	-	-	-	-
Illinois Criminal Justice Information Authority	1,158,806	-	-	-	1,158,806	-	-	-	-
Illinois Department of Human Services	323,068	-	-	-	323,068	-	-	-	-
Other Grants	676,047	-	-	-	676,047	-	-	-	-
Miscellaneous grants	113,142	-	-	-	113,142	-	-	-	-
United Way allocations	-	-	-	-	-	-	-	-	-
Lawyers Trust Fund of Illinois	-	-	-	-	-	-	-	-	-
Cy Pres awards	-	-	-	-	-	-	-	-	-
Contributions, net of provision for uncollectible pledges	-	-	-	-	-	-	-	-	-
Special events - fundraising	-	-	-	-	-	-	-	-	-
Donated services and materials	-	-	-	-	-	-	-	-	-
Interest and dividends	-	-	-	-	-	-	-	-	-
Miscellaneous revenue	-	-	-	-	-	-	-	-	-
Unrealized gain (loss) on investment securities, net of fees	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-	-
Satisfaction of program restrictions	-	-	-	-	-	-	-	-	-
Expiration of time restrictions	-	-	-	-	-	-	-	-	-
Total support and revenue	10,124,737	(46,088)	-	9,440,876	19,519,525	-	1,230	507,155	20,027,910
EXPENSES:									
Program services - provision of legal services	8,666,226	-	26,481	6,893,785	15,586,492	-	-	-	15,586,492
Management and general	1,006,852	-	7,730	1,109,910	2,224,492	-	-	-	2,224,492
Fund raising	351,659	-	773	189,189	541,621	-	-	-	541,621
Total expenses	10,124,737	-	34,984	8,192,884	18,352,605	-	-	-	18,352,605
Increase (decrease) in net assets	-	(46,088)	(34,984)	1,247,992	1,166,920	-	1,230	507,155	1,675,305
Net assets, beginning of year	-	360,276	70,959	7,301,756	7,732,991	-	193,185	2,859,699	3,052,884
Net assets, end of year	\$ -	\$ 314,188	\$ 35,975	\$ 8,549,748	\$ 8,899,911	\$ -	\$ 194,415	\$ 3,366,854	\$ 12,461,180
									\$ 10,785,875

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

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022
(With Comparative Totals for 2021)

	Program Services	Management and General	Fund Raising	Total	
				2022	2021
Salaries and wages:					
Lawyers	\$ 7,881,462	\$ 583,780	\$ 136,754	\$ 8,601,996	\$ 7,866,434
Nonlawyers	2,418,804	908,570	200,230	3,527,604	2,984,512
Employee benefits	3,016,845	311,959	89,107	3,417,911	3,061,065
Consultant and professional services (including private attorney involvement)	126,349	28,925	-	155,274	166,009
Contract services/Subgrants	140,850	64,301	330	205,481	100,137
Travel and training	98,196	9,100	1,223	108,519	66,225
Space and occupancy	909,459	85,687	17,516	1,012,662	987,934
Office supplies	65,084	4,698	28,329	98,111	56,102
Telephone/Internet	177,255	23,637	2,420	203,312	257,952
Library	69,037	-	-	69,037	56,264
Postage	27,731	2,023	2,655	32,409	37,027
Information Technology	306,737	157,840	30,624	495,201	293,793
Insurance	49,787	12,449	1,738	63,974	52,714
Depreciation	26,481	7,730	773	34,984	37,108
Miscellaneous	272,415	23,793	29,922	326,130	150,985
	\$ 15,586,492	\$ 2,224,492	\$ 541,621	\$ 18,352,605	\$ 16,174,261

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

PRAIRIE STATE LEGAL SERVICES, INC.
STATEMENT OF CASH FLOWS

Year Ended December 31, 2022
(With Comparative Totals for 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,675,305	\$ 1,859,706
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	34,984	37,108
Unrealized gain on investment securities, net of fees	46,088	(46,571)
Provision for uncollectible pledges	(20,110)	(3,705)
Amortization of operating lease right-of-use asset	851,428	-
Change in liability under operating leases	-	22,436
Change in assets and liabilities:		
Support receivables, net	(1,117,245)	(1,739,485)
Prepaid expenses and other assets	41,751	(419)
Operating lease obligation	(832,548)	-
Accounts payable	34,172	(29,843)
Accrued expenses	186,934	298,007
Client deposits	(210,408)	199,482
Refundable advances	(560,466)	148,079
Net cash provided by operating activities	129,885	744,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(10,183)
Purchase of investments	-	(63)
Net cash used in investing activities	-	(10,246)
Change in cash, cash equivalents, and restricted cash	129,885	734,549
Cash, cash equivalents, and restricted cash:		
Beginning of year	7,256,463	6,521,914
End of year	\$ 7,386,348	\$ 7,256,463
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 7,381,270	\$ 7,040,977
Client escrow deposits	5,078	215,486
Total cash, cash equivalents, and restricted cash	\$ 7,386,348	\$ 7,256,463

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

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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 two categories, which are net assets without donor restrictions and net assets with donor restrictions. 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:

Net assets without donor restrictions:

Net assets that are not subject to donor-imposed stipulations are classified as net assets without donor restrictions. 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 net assets without donor restrictions for future use in providing law school student loan assistance to qualifying employees.

Net assets with donor restrictions:

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.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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

Financial statement presentation (continued):

WCLAP – WCLAP has restricted these funds to be used solely to support the costs of services delivered to residents of Will County.

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. See Note 6 for additional detail.

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.

Certificate of deposit included in cash and cash equivalents was \$0 and \$103,602 as of December 31, 2022 and 2021, respectively. The certificate bears interest for 0% and .3% as of December 31, 2022 and as of December 31, 2021, respectively, and has initial maturities for twelve months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Support receivables:

Special events revenue includes both a contribution portion and an exchange portion for the direct donor benefits provided. The exchange portion is considered revenue from contracts with customers that is recognized at the time the event takes place. The exchange portion is not material to the financial statements.

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend on have been 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. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restricted contribution expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor 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.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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

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 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.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

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.

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, property and equipment with a 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.

Leases – Lessee:

The Organization determines if an arrangement is or contains a lease at inception. The Organization has entered into a variety of operating leases for office spaces. Operating leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term.

The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less and that do not include an option to purchase the underlying assets that is reasonably certain to be exercised). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. The Organization had no short-term leases during 2022.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

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

Leases – Lessee (continued):

For leases of office spaces, the Organization has elected to account for the lease and non-lease components as a single lease component. There is variability in future lease payments for the offices as the amount of the non-lease components is dependent on certain factors that are unknown and change from one period to the next. These variable lease payments which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Organization has also made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments for its leases of office spaces. A risk-free rate is used for all leases since the leases do not provide an implicit rate. The risk-free rate is based on the information available at the lease commencement date in determining the present value of the lease payments.

Refundable advances:

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/ or 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. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. There were no refundable advances associated with unexpended LSC FY22 and FY21 Basic Field Grant award amounts.

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 2022 and 2021 in the amount of \$127,412 and \$121,287, respectively, has been recognized in the accompanying financial statements. The donated legal services are reported using current rates for similar legal services and are utilized to carry out the mission of the Organization.

Donations of marketable securities and other noncash assets are recognized as support at their estimated fair value. Such donations are reported as support without donor restrictions 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 support with donor restrictions. Absent any explicit donor-imposed time requirement, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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

Cost allocation:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include office and occupancy, which are allocated to the various programs or supporting functions primarily using labor hours as a driver. An electronic timekeeping system is utilized to track time and allocate expenses.

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.

New accounting standards adopted:

In February 2016, the FASB issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 and recognized and measured leases existing at January 1, 2022 (the beginning of the period of adoption), with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 a lease liability of \$5,416,417, which represents the present value of the remaining operating lease payments of \$5,716,659, discounted using the risk-free rate of 1.53%, and a right-of-use asset of \$5,246,409, which represents the lease liability adjusted for accrued rent of \$170,008. There was no impact on net assets.

The standard had a material impact on the Organization's statement of financial position, but did not have a material impact on the statement of activities or statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

The Organization's policy is to continue to amortize leasehold improvements over the original existing amortization period for all continuing leases in which it is the lessee.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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

New accounting standards adopted (continued):

The Organization's policy in determining the risk-free rate for existing operating leases at January 1, 2022 is to base it on the remaining lease term.

In September 2020, FASB issued Accounting Standards Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets, which provides more transparency and consistency to the presentation and disclosure of contributed nonfinancial assets.

The Organization was required to adopt this new accounting standard during its fiscal year ended December 31, 2022. The adoption of this new standard requires the entity to apply presentation and disclosure changes retrospectively to all periods presented. The adoption of this new standard did not have a material impact on the entity's financial statements.

Subsequent events:

These financial statements have not been updated for subsequent events occurring after April 17, 2023, 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 2021 in the accompanying Statements of Financial Position, Activities, Functional Expenses, and Cash Flows, are included to provide a basis for comparison with 2022 and are not intended to present all information necessary for fair presentation of 2021 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, 2021, from which the comparative totals were derived.

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Note 2. Support Receivables, Net

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

	2022	2021
Lawyer's Trust Fund of Illinois	\$3,012,880	\$2,302,000
Campaign for legal services	106,684	173,605
United Way agencies	189,542	182,368
Other, program services reimbursement	2,856,340	2,370,328
	6,165,446	5,028,301
Less present value of unconditional promises to give	-	-
	6,165,446	5,028,301
Allowance for uncollectible support	(9,341)	(9,551)
	\$6,156,105	\$5,018,750

Support receivables are recorded after discounting to the net present value of future cash flows using a discount rate of 2.50% as of December 31, 2022 and 2021, and providing for an allowance for uncollectible support. Support receivables in less than one year are measured at net realizable value, which approximates fair value. Estimates of the timing of fulfillment of the conditions, and consequently of recognizing the contributions, are as follows:

	2022	2021
Less than one year	\$6,156,105	\$5,018,750
One year to five years	-	-
Beyond five years	-	-
	\$6,156,105	\$5,018,750

PRAIRIE STATE LEGAL SERVICES, INC.**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022

Note 3. Fair value disclosure

The fair value measurements for the categories of assets that are measured at fair value on a recurring basis are as follows:

		Fair value measurement using:		
<u>Assets</u>	<u>12/31/2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
CFNI Investments ¹	\$ <u>314,188</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>314,188</u>
<u>Assets</u>	<u>12/31/2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
CFNI Investments ¹	\$ <u>360,276</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>360,276</u>

¹ 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.

The total contributions to the CFNI Investments were \$0 and \$63 for the years ended December 31, 2022 and 2021, respectively.

Note 4. Property and Equipment, Net

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

	2022	2021
Furniture and equipment, including software	\$140,982	\$140,982
Leasehold improvements	195,278	195,278
	336,260	336,260
Less accumulated depreciation	300,285	265,301
	\$35,975	\$70,959

Depreciation expense for the years ended December 31, 2022 and 2021 was \$34,984 and \$37,108, respectively.

Note 5. Accrued Expenses

Accrued expenses are as follows as of December 31:

	2022	2021
Retirement benefits	\$732,204	\$653,902
Payroll expense	543,787	477,008
Other	118,982	77,129
	\$1,394,973	\$1,208,039

PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Note 6. Other Donor Restrictions on Net Assets

Net assets with donor restrictions included in 'Donor restricted' on the statement of financial position are available for the following purposes or periods as of December 31:

	2022	2021
For periods after December 31	\$3,199,614	\$2,696,911
For specific program expenses	167,240	162,788
	<u>\$3,366,854</u>	<u>\$2,859,699</u>

Note 7. Leases

Prairie State Legal Services, Inc. leases office space under operating leases with 1 to 10 year initial terms. Most leases include renewal options which can extend the lease term between 1-5 years. The exercise of these renewal options is at the sole discretion of the Organization, and only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. The terms of the leases expire at various dates between May 2023 and June 2030.

While all of the agreements provide for minimum lease payments, one includes payments for real estate taxes, insurance, and common area maintenance costs. These payments are recognized in the period in which the related obligation was incurred. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The components of lease expense only comprise of operating lease cost totaling \$926,755 included in space and occupancy on the statement of functional expenses for the year ended December 31, 2022.

Supplemental statement of cash flows information related to leases as of December 31, 2022, is as follows:

Cash paid for amounts included in the measurement
of lease liabilities:

Operating cash flows from operating leases	\$907,875
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Noncash financing and investing cash flow:

Right-of-use assets obtained in exchange for lease obligations:

Operating leases	\$5,246,409
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PRAIRIE STATE LEGAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Note 7. Leases (Continued)

Supplemental statement of financial position information related to leases as of December 31, 2022, is as follows:

Weighted average remaining lease term (in years):	
Operating leases	6.13

Weighted average discount rate:	
Operating leases	1.53%

Future minimum lease payment to be paid under this lease as of December 31, 2022, are as follows:

Year Ending December 31:	
2023	\$858,499
2024	790,684
2025	775,611
2026	732,114
2027	646,056
Thereafter	1,005,820
Total future minimum lease payments	4,808,784
Less amount of lease payments representing interest	224,915
Present value of future minimum lease payments (lease liabilities)	4,583,869

Operating leases under prior lease guidance in FASB ASC 840 – 2021:

Prairie State Legal Services, Inc. leases office space under various non-cancelable long-term lease agreements. Four of the leases require annual rent increases that are stated in the lease agreements. The leases have renewal options varying for one-year to five-year terms. Lease terms expire on various dates from May 2022 to June 2030. The total minimum rental commitment under these leases as of December 31, 2021 is \$4,765,363, which is due as follows:

Year Ending December 31:	
2022	\$894,363
2023	813,269
2024	585,058
2025	587,516
2026	536,567
Thereafter	1,348,590
	\$4,765,363

Total rental expense for the year ended December 31, 2021 was approximately \$894,000.

PRAIRIE STATE LEGAL SERVICES, INC.
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December 31, 2022

Note 8. Concentration of Support and Contingency

Approximately 24% and 25% of the Organization's support for the years ended December 31, 2022 and 2021, 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 16% of the Organization's support for the years ended December 31, 2022 and 2021, respectively, came from Illinois Criminal Justice Information Authority (ICJIA). Approximately 15% and 19% of the Organization's support for the years ended December 31, 2022 and 2021, respectively, came from Lawyers Trust Fund of Illinois (LTF). Any substantial loss of funding from LSC, ICJIA 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 9. 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, prior to reductions from forfeitures of \$41,969 and \$33,832, was \$971,153 and \$876,141 for the years ended December 31, 2022 and 2021, respectively.

Note 10. Availability of Financial Assets

The Organization's annual operating budget is developed using conservative estimates for income components. Expenses are then budgeted within the limitations of projected income. In addition, as part of its liquidity management, the Organization has a Reserve Policy which provides for cash reserves being maintained at a level from 25% to 50% of the annual expense budget to provide for unexpected needs for funds.

The Organization has the following financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date:

	2022	2021
Cash and cash equivalents	\$7,381,270	\$7,040,977
Support receivables, net	6,156,105	5,018,750
Less financial assets subject to donor restrictions	3,561,269	3,052,884
	<u>\$9,976,106</u>	<u>\$9,006,843</u>