

**LEGAL SERVICES OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Legal Services of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Legal Services of North Dakota (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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 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 Legal Services of North Dakota, as of December 31, 2018, and the respective changes 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Legal Services of North Dakota adopted the provisions of FASB Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2018. This resulted in changes to accounting policies regarding classification of net assets. New disclosures were added regarding liquidity and availability. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional activities of net assets with donor restrictions and the summary of funding schedule are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 our report dated April 23, 2019 on our consideration of Legal Services of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Legal Services of North Dakota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Services of North Dakota's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Legal Services of North Dakota's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

April 23, 2019

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

	2018	(Memorandum Only) 2017
Current assets:		
Cash and cash equivalents	\$ 581,775	\$ 898,637
Client escrow funds	2,057	1,408
Receivables:		
BCI / JAG	14,379	7,047
CDBG-City of Bismarck	403	-
IRS - VITA	3,507	4,929
Bank of America (BOA) Bar Foundation	732,092	742,598
ND CAWS	-	9,412
NDDHS	45,820	47,612
ND Department of Health - S.T.O.P.	2,564	1,346
NARF	2,811	6,192
Juvenile Drug Court	625	-
SCJD	5,700	5,123
United Way	1,800	2,735
Prepaid expenses	23,577	27,439
Total current assets	1,417,110	1,754,478
Property and equipment:		
Furniture and equipment	189,113	275,506
Less accumulated depreciation	150,794	213,768
Net property and equipment	38,319	61,738
Total assets	\$ 1,455,429	\$ 1,816,216

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 8,041	\$ 17,821
Accrued expenses	38,256	48,825
Accrued vacation payable	72,071	73,874
Client trust deposits	1,457	1,408
Total current liabilities	119,825	141,928
Net assets:		
Without donor restrictions	60,780	56,551
With donor restrictions	1,274,824	1,617,737
Total net assets	1,335,604	1,674,288
Total liabilities and net assets	\$ 1,455,429	\$ 1,816,216

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total	(Memorandum Only) 2017 Total
Support and revenue:				
Grants	\$ -	\$ 1,654,809	\$ 1,654,809	\$ 2,791,631
Other income	1,549	3,401	4,950	2,712
Training income	-	6,020	6,020	5,230
Interest income	1,394	116	1,510	146
Loss on disposal of equipment	-	(1,767)	(1,767)	-
Donations	-	33,022	33,022	41,870
Net assets released from restrictions:				
Satisfaction of grant restrictions	<u>2,038,514</u>	<u>(2,038,514)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,041,457</u>	<u>(342,913)</u>	<u>1,698,544</u>	<u>2,841,589</u>
Expenses:				
Program services:				
Senior citizen	559,755	-	559,755	685,092
Indian law	373,783	-	373,783	351,573
General law	494,163	-	494,163	470,166
Domestic violence	52,095	-	52,095	62,559
Housing program	183,550	-	183,550	57,569
Private attorney involvement	51,734	-	51,734	60,258
Human trafficking	31,349	-	31,349	40,166
Medical Legal Partnership	86,953	-	86,953	-
Community Education	9,290	-	9,290	5,164
Total program services	<u>1,842,672</u>	<u>-</u>	<u>1,842,672</u>	<u>1,732,547</u>
Supporting services:				
General administration	<u>194,556</u>	<u>-</u>	<u>194,556</u>	<u>231,936</u>
Total expenses	<u>2,037,228</u>	<u>-</u>	<u>2,037,228</u>	<u>1,964,483</u>
Change in net assets	<u>4,229</u>	<u>(342,913)</u>	<u>(338,684)</u>	<u>877,106</u>
Net assets, beginning of year	<u>56,551</u>	<u>1,617,737</u>	<u>1,674,288</u>	<u>797,182</u>
Net assets - end of year	<u>\$ 60,780</u>	<u>\$ 1,274,824</u>	<u>\$ 1,335,604</u>	<u>\$ 1,674,288</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services										Support Services	Total Expenses		
	Senior Citizens Program	Indian Law Program	General Law Program	Domestic Violence Program	Housing Program	Private Attorney Involvement	Human Trafficking Program	Medical Legal Partnership	Community Education	Total	General Administration	2018	(Memorandum Only)	2017
Salaries and wages:														
Lawyers	\$ 175,903	\$ 75,920	\$ 212,517	\$ 28,053	\$ 85,803	\$ 11,190	\$ 17,876	\$ 53,172	\$ 5,694	\$ 666,128	\$ -	\$ 666,128	\$ 612,160	
Nonlawyers	185,177	168,088	115,725	8,263	40,119	17,500	2,855	3,992	628	542,347	42,793	585,140	572,994	
Employee benefits	101,920	55,578	86,566	8,882	29,258	7,487	5,193	12,992	1,769	309,645	39,677	349,322	325,002	
Program travel	5,760	9,488	8,629	1,343	7,923	2,267	1,269	1,555	153	38,387	4,241	42,628	44,194	
Conference travel	1,995	690	2,258	2,886	2,568	3,964	219	2,632	-	17,212	5,197	22,409	23,376	
Space expense	48,083	30,859	21,451	109	4,568	-	-	4,090	-	109,160	29,103	138,263	139,793	
Office expenses	19,983	19,857	21,955	108	6,774	55	1,065	3,184	946	73,927	28,240	102,167	106,277	
Equipment rental & maintenance	1,366	933	5,020	-	167	-	-	-	-	7,486	5,417	12,903	13,701	
Library maintenance	1,422	1,257	1,896	-	1,570	-	685	-	-	6,830	6,929	13,759	12,742	
Litigation costs	262	27	30	224	-	-	60	-	-	603	-	603	165	
Small equipment purchases	-	3,290	8,876	-	1,414	-	-	763	-	14,343	-	14,343	15,447	
Subcontracted services	11,927	3,833	3,981	1,673	1,448	8,720	1,793	3,648	-	37,023	30,888	67,911	75,412	
Total expenses before depreciation	553,798	369,820	488,904	51,541	181,612	51,183	31,015	86,028	9,190	1,823,091	192,485	2,015,576	1,941,263	
Depreciation	5,957	3,963	5,259	554	1,938	551	334	925	100	19,581	2,071	21,652	23,220	
Total expenses	\$ 559,755	\$ 373,783	\$ 494,163	\$ 52,095	\$ 183,550	\$ 51,734	\$ 31,349	\$ 86,953	\$ 9,290	\$ 1,842,672	\$ 194,556	\$ 2,037,228	\$ 1,964,483	

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	(Memorandum Only) 2017
Cash flows from operating activities:		
Change in net assets	\$ (338,684)	\$ 877,106
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	21,652	23,220
Loss on disposal of equipment	1,767	-
Effects on operating cash flows due to changes in:		
Accounts / pledges receivable	17,293	(718,911)
Prepaid expenses	3,862	23,173
Accounts payable	(9,780)	941
Accrued expenses / Accrued vacation payable	<u>(12,372)</u>	<u>18,707</u>
Net cash provided (used) by operating activities	<u>(316,262)</u>	<u>224,236</u>
Cash flows used by investing activities:		
Additions to client escrow funds	(600)	-
Additions to property and equipment	<u>-</u>	<u>(9,365)</u>
Net cash provided (used) by investing activities	<u>(600)</u>	<u>(9,365)</u>
Net change in cash and cash equivalents	(316,862)	214,871
Cash and cash equivalents balances:		
Beginning of year	<u>898,637</u>	<u>683,766</u>
End of year	<u>\$ 581,775</u>	<u>\$ 898,637</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Legal Services of North Dakota is a nonprofit organization, primarily providing civil legal services to low income and elderly residents of North Dakota. Prior to January 1, 2004, the Organization operated under the name of Legal Assistance of North Dakota, Inc. On January 1, 2004, the Organization merged its services with North Dakota Legal Services, Inc. The Organization operates under the name of Legal Services of North Dakota. The Organization is providing the same services to the entire State of North Dakota and its main funding source is Legal Services Corporation, Inc. Approximately 45% of the support and revenue is received from the Legal Services Corporation (LSC). They have sub-grant agreements with private law firms to assist in the deliveries of these legal services.

Basis of Accounting

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

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America, ("GAAP"), as codified by the Financial Accounting Standards Board.

Financial statement presentation follows the recommendation of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

Net assets without donor restrictions represent the expendable resources that are available for operations at management's discretion. Net assets with donor restrictions represent resources restricted by donors as to purpose or by the passage of time as well as resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Grant Revenue Recognition

The Organization recognizes grant revenue from grants when the grant is awarded and earned in accordance with grants terms.

Grants Receivable

Grants receivable are carried at original invoice amount less an estimate made for doubtful receivables based on review of all outstanding amounts on a monthly basis. Grants receivable are written off when deemed uncollectible. Recoveries of grants receivables previously written

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

off are recorded when received. No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. 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 restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restriction to net assets without donor restriction at that time.

Property and Equipment

The Organization capitalize furniture and equipment with a cost of more than \$1,000 and an estimated useful life longer than two years, at cost and depreciates it primarily on a straight-line basis over five to ten years.

Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Furniture and equipment acquired with grant funds is considered to be owned by the Organization while used in the program or in future authorized programs. However, some of the granting sources have a reversionary interest in the property as well as the right to determine the use of any proceeds from the sale of assets purchased with their respective funds.

Donated Services

Donated services are legal services and related office expenses rendered at no charge to the Organization. The value of donated services is based upon estimated fees normally charged by the professional rendering the service. Donated services are recognized both as support and expenses and, therefore, do not affect fund balances. There were no donated services provided in the year ended December 31, 2018.

Allocation of Expenses

In some cases, common expenses are incurred which support the work performed under more than one grant. Such expenses are allocated among the grants as agreed by the granting sources and management's estimate.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Income Taxes

The Organization is a nonprofit organization not subject to income tax under IRS Code Sec. 501(c)(3), and has been determined by the Internal Revenue Service not to be a private foundation.

The Organization's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

Accrued Vacation

All full time employees earn and accrue annual leave from the first day of employment. Accrual occurs at rates based on length of employment. Any accrued vacation up to 240 hours can be carried to the following year.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers checking, savings and money market accounts to be cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

General administration expenses are disclosed in the Statement of Functional Expenses. Expenses are allocated to function based on actual expenditure.

Memorandum Only – Total Columns

The 2017 total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standard

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

provided about expenses and investment return. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 13). The ASU has been applied retrospectively to all periods presented.

NOTE 2 LEASE COMMITMENTS

Operating Lease

The Organization has various leases on its office spaces until 2023. The Organization is committed to pay rentals over the next five years. Total rent expense for the year ended December 31, 2018 was \$138,263.

Lease Commitments

The operating lease commitments as of December 31 are as follows:

2019	\$ 112,985
2020	88,766
2021	65,712
2022	68,269
2023	66,050

NOTE 3 PRIVATE ATTORNEY INVOLVEMENT (PAI)

Legal Services Corporation requires attorneys in private practice be involved in the delivery of services by Legal Services of North Dakota. The involvement must equal, at a minimum, 12.5% of the annualized basic field grant. For the year ended December 31, 2018 it amounted to 10.83%. This is based on the \$51,183 of total PAI expenditures from the LSC base grant, Native American grant, Title III, and other funding sources.

NOTE 4 LIMITATION OF FEDERAL CARRYOVER FUNDS

Legal Services Corporation limits the federal LSC fund balance carryover to 10% of the annualized grant award. Any excess carryover must be returned to Legal Services Corporation. This percentage may be increased to 25% if a waiver of the restriction is submitted and approved. The Organization has 3.27% carryover for the year ending December 31, 2018.

NOTE 5 RELATED PARTIES

The Organization did not have any material transactions with related parties and as such, no disclosure is deemed necessary.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 6 PENSION PLAN

The Organization has a pension plan covering substantially all of its employees. The Organization's cost for the year ended December 31, 2018 was \$29,501. The Organization contributes an amount equal to 1% of the qualifying participant's salary and also matches up to 50% of the first 6% of the voluntary salary reduction amount for each qualifying employee. The Organization's policy is to fund all pension costs accrued.

NOTE 7 PAI COMMITMENT

As of December 31, 2018, the Organization had commitments to pay private attorneys up to \$24,061 for subcontracted services. This amount will be paid in the next fiscal year when the services are provided.

NOTE 8 CONCENTRATION OF CREDIT RISK

The Organization maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000 per financial institution. As of December 31, 2018, all deposits were fully insured by FDIC coverage.

Most of the Organization's operating revenues are derived from grants and reimbursement from third party payers. As a result, the application of reimbursement programs and changes therein could significantly affect the revenues of the Organization.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 9 SUBCONTRACT PAYMENTS

The Organization had the following subcontract payments for the year ended December 31, 2018:

	LSC Eligible Subcontracts											Total
	Base Grant	Native American	Title III	Surcharge	Bush Foundation - MLP	Bush Foundation - Prize	Bank of America	BCI / JAG	SBAND	NDCAWS	NDDOH - S.T.O.P	
Subgrantees:												
Private Attorney Contracts	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,249	\$ 300	\$ 136	\$ 8,720
Miscellaneous Contracts	13,782	3,683	10,881	18,686	823	6,458	1,448	1,757	-	1,673	-	59,191
Total subcontracted services	\$ 13,817	\$ 3,683	\$ 10,881	\$ 18,686	\$ 823	\$ 6,458	\$ 1,448	\$ 1,757	\$ 8,249	\$ 1,973	\$ 136	\$ 67,911

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 10 NET ASSETS

With Donor Restrictions

Net assets with donor restrictions as of December 31, 2018, consist of purpose restrictions established by the donor.

Annually, the Organization receives grant awards from the Legal Services Corporation, Inc. to provide Basic Field, and Native American legal services to low-income individuals in the state of North Dakota. Use of these funds is restricted by the LSC Act of 1974, as amended; U.S. Congressional appropriations; and, LSC regulations including client eligibility standards.

The Organization also receives an annual grant from the North Dakota Department of Human Services of Title III funds to provide legal services to the elderly in the state of North Dakota; to identify and address major elderly legal issues, to provide community legal education, to research selected protective services issues and produce written educational materials and written recommendations.

The Organization received a grant from the North Dakota Bar Foundation of interest on lawyer's trust accounts (IOLTA) and Bank of America Settlement funds (BOA). IOLTA is to be used for the legal services of individuals in the state of North Dakota. BOA is to be used for foreclosure prevention legal assistance and community redevelopment legal assistance.

The Organization also received grants from United Way, Surcharge, IRS-VITA, SCJD, NARF, State Judiciary Juvenile Drug Court, Bush Foundation-Prize, Bush Foundation – MLP, NDCAWS, CDBG –City of Fargo, BCI/JAG, NDDOH, and NDDHS for various projects and expenses encompassing the providing of legal services to low-income individuals throughout the state of North Dakota.

The net assets with donor restrictions consist of the following as of December 31, 2018:

LSC - Basic Field - Property	\$ 43,202
LSC - Native American	20,274
Surcharge	205,869
Bush Foundation - MLP	127,434
Bush Foundation - Prize	109,915
Bank of America	673,214
Bankruptcy Foundation	8,000
United Way	264
SBAND	27,971
NDCAWS	1,911
Donations	56,770
Total	<u>\$ 1,274,824</u>

The net assets released from restrictions by expenditures of the funds for the purpose for which they were received based upon restrictions imposed by the donor was \$2,038,514.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 11 GRANTS

The Organization participates in federal grant programs, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018, may be impaired. In the opinion of the management of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12 INCOME TAXES

It is the opinion of management that the Organization has no significant uncertain tax positions that would be subject to change upon examination. The federal income tax returns of the Organization are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 13 LIQUIDITY AND AVAILABILITY

The following reflects Legal Services of North Dakota's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of grantor restrictions. The following table reflects the Organization's financial assets due within one year of the statement of financial position as of December 31, 2018 for general expenditures:

Cash and cash equivalents	\$ 581,775
Client escrow funds	2,057
Grants receivable	<u>809,701</u>
Total financial assets	1,393,533
Less Grantor-imposed restrictions:	
Money restricted by grantor for grants and other purposes	<u>(1,274,824)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 118,709</u>

The Organization structures its financial assets available as its general expenditures, liabilities and other obligations come due. The statement of cash flows identifies the sources and uses of the Organization's cash and shows negative cash generated by operations of \$316,262 for the fiscal year ended December 31, 2018.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 14 FUTURE PRONOUNCEMENTS

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

During 2014, the FASB issued a new standard related to revenue recognition. ASU 2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-02 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Organization for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

ASU 2018-08, Contributions Received and Contributions made (Topic 958)

During 2018, the FASB issued an accounting standards update intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU is effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

Management has not yet determined what the effect these pronouncements will have on the Organization's financial statements.

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Organization's financial statements.

NOTE 15 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through April 23, 2019, which is the date these financial statements were available to be issued.

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	LSC Base Grant			LSC Native American			LSC Property	Title III			Bankruptcy Foundation Grant
	PAI	Non-PAI	Total Base Grant	PAI	Non-PAI	Total Native American		PAI	Non-PAI	Total Title III	
Support and revenue:											
Grants and contracts	\$ 24,553	\$ 447,894	\$ 472,447	\$ 2,964	\$ 292,919	\$ 295,883	\$ -	\$ 1,098	\$ 310,421	\$ 311,519	\$ 8,000
Other income	-	1,248	1,248	-	488	488	-	-	-	-	-
Training revenue	-	2,119	2,119	-	-	-	-	-	-	-	-
Interest income	-	116	116	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	1,065	1,065	-
Total support and revenue	24,553	451,377	475,930	2,964	293,407	296,371	-	1,098	311,486	312,584	8,000
Expenses:											
Salaries and wages:											
Lawyers	5,578	118,558	124,136	874	73,804	74,678	-	431	95,523	95,954	-
Nonlawyers	10,106	121,718	131,824	1,034	114,900	115,934	-	445	99,588	100,033	-
Employee benefits	3,963	90,770	94,733	385	44,642	45,027	-	222	54,967	55,189	-
Program travel	1,211	11,172	12,383	291	5,917	6,208	-	-	2,221	2,221	-
Conference travel	3,605	4,706	8,311	380	234	614	-	-	285	285	-
Space expense	-	40,950	40,950	-	30,860	30,860	-	-	32,475	32,475	-
Office expenses	55	29,289	29,344	-	18,667	18,667	-	-	14,061	14,061	-
Equipment rental & maintenance	-	8,637	8,637	-	1,175	1,175	-	-	1,366	1,366	-
Library maintenance	-	6,122	6,122	-	1,257	1,257	-	-	-	-	-
Litigation costs	-	30	30	-	27	27	-	-	119	119	-
Subcontracted services	35	13,782	13,817	-	3,683	3,683	-	-	10,881	10,881	-
Depreciation	-	-	-	-	-	-	21,652	-	-	-	-
Equipment	-	760	760	-	-	-	-	-	-	-	-
Total expenses	24,553	446,494	471,047	2,964	295,166	298,130	21,652	1,098	311,486	312,584	-
Change in net assets	-	4,883	4,883	-	(1,759)	(1,759)	(21,652)	-	-	-	8,000
Net assets, beginning of year	-	-	-	-	22,033	22,033	61,738	-	-	-	-
Other changes in net assets:											
Disposition of property	-	-	-	-	-	-	(1,767)	-	-	-	-
Net assets - end of year	\$ -	\$ 4,883	\$ 4,883	\$ -	\$ 20,274	\$ 20,274	\$ 38,319	\$ -	\$ -	\$ -	\$ 8,000

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	Surcharge			Bush Foundation - MLP			Fredrikson & Byron Foundation	IOLTA	Bush Foundation - Prize	Bank of America			BCI / JAG
	PAI	Non-PAI	Total Surcharge	PAI	Non-PAI	Total Bush Foundation - MLP				PAI	Non-PAI	Total Bank of America	
Support and revenue:													
Grants and contracts	\$ 9,283	\$ 303,720	\$ 313,003	\$ 38	\$ (38)	\$ -	\$ -	\$ 30,000	\$ -	\$ 730	\$ (730)	\$ -	\$ 29,328
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-
Training revenue	-	-	20	-	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	10,000	-	-	-	-	-	-
Total support and revenue	9,283	303,720	313,023	38	(38)	-	10,000	30,000	-	730	(730)	-	29,328
Expenses:													
Salaries and wages:													
Lawyers	2,549	85,054	87,603	14	49,515	49,529	8,000	38,212	183	-	78,658	78,658	17,386
Nonlawyers	4,764	123,157	127,921	6	4,047	4,053	-	-	4,510	-	36,866	36,866	2,781
Employee benefits	1,970	57,907	59,877	5	11,835	11,840	2,000	8,778	1,839	-	26,372	26,372	5,183
Program travel	-	3,006	3,006	-	1,555	1,555	-	-	92	441	7,923	8,364	1,267
Conference travel	-	3,189	3,189	13	2,698	2,711	-	-	580	289	2,408	2,697	219
Space expense	-	28,002	28,002	-	1,006	1,006	-	-	-	-	4,568	4,568	-
Office expenses	-	26,849	26,849	-	3,183	3,183	-	-	2,165	-	6,847	6,847	-
Equipment rental & maintenance	-	1,558	1,558	-	-	-	-	-	-	-	167	167	-
Library maintenance	-	5,025	5,025	-	-	-	-	-	-	-	670	670	685
Litigation costs	-	209	209	-	-	-	-	-	-	-	-	-	50
Subcontracted services	-	18,686	18,686	-	823	823	-	-	6,458	-	1,448	1,448	1,757
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	763	763	-	-	11,406	-	1,414	1,414	-
Total expenses	9,283	352,642	361,925	38	75,425	75,463	10,000	46,990	27,233	730	167,341	168,071	29,328
Change in net assets	-	(48,922)	(48,902)	-	(75,463)	(75,463)	-	(16,990)	(27,233)	-	(168,071)	(168,071)	-
Net assets, beginning of year	-	254,771	254,771	-	202,897	202,897	-	16,990	137,148	-	841,285	841,285	-
Other changes in net assets:													
Disposition of property	-	-	-	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ 205,849	\$ 205,869	\$ -	\$ 127,434	\$ 127,434	\$ -	\$ -	\$ 109,915	\$ -	\$ 673,214	\$ 673,214	\$ -

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	IRS-VITA	United Way	John D. Kelly Memorial Fund	NARF - Criminal	SBAND-PAI	SCJD			NDCAWS		
						PAI	Non-PAI	Total SCJD	PAI	Non-PAI	Total NDCAWS
Support and revenue:											
Grants and contracts	\$ 22,346	\$ 16,991	\$ -	\$ 11,450	\$ -	\$ -	\$ 67,996	\$ 67,996	\$ 1,617	\$ 33,644	\$ 35,261
Other income	-	-	1,665	-	-	-	-	-	-	-	-
Training revenue	-	-	-	-	-	-	-	-	-	3,881	3,881
Interest income	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	21,000	-	-	-	-	-	-
Total support and revenue	22,346	16,991	1,665	11,450	21,000	-	67,996	67,996	1,617	37,525	39,142
Expenses:											
Salaries and wages:											
Lawyers	-	9,666	-	1,088	621	-	41,604	41,604	1,105	17,556	18,661
Nonlawyers	15,701	6,469	1,439	8,248	997	-	11,694	11,694	42	6,123	6,165
Employee benefits	3,252	4,854	226	2,082	721	-	13,422	13,422	170	6,194	6,364
Program travel	2,372	2,657	-	32	-	-	552	552	-	1,344	1,344
Conference travel	-	152	-	-	-	-	724	724	-	2,724	2,724
Space expense	-	402	-	-	-	-	-	-	-	-	-
Office expenses	1,021	30	-	-	-	-	-	-	-	-	-
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	-	-
Library maintenance	-	-	-	-	-	-	-	-	-	-	-
Litigation costs	-	-	-	-	-	-	-	-	-	-	-
Subcontracted services	-	-	-	-	8,249	-	-	-	300	1,673	1,973
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-	-
Total expenses	22,346	24,230	1,665	11,450	10,588	-	67,996	67,996	1,617	35,614	37,231
Change in net assets	-	(7,239)	-	-	10,412	-	-	-	-	1,911	1,911
Net assets, beginning of year	-	7,503	-	-	17,559	-	-	-	-	-	-
Other changes in net assets:											
Disposition of property	-	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ 264	\$ -	\$ -	\$ 27,971	\$ -	\$ -	\$ -	\$ -	\$ 1,911	\$ 1,911

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018

	Donations					NDDOH - S.T.O.P			Teen Drug Court	NARF Civil	Totals
	PAI	Non-PAI	Total Donations	CDBG - City of Fargo	CDBG - City of Bismarck	PAI	Non-PAI	Total NDDOH - S.T.O.P			
Support and revenue:											
Grants and contracts	\$ -	\$ -	\$ -	\$ 5,000	\$ 4,083	\$ 314	\$ 11,737	\$ 12,051	\$ 7,500	\$ 11,951	\$ 1,654,809
Other income	-	-	-	-	-	-	-	-	-	-	3,401
Training revenue	-	-	-	-	-	-	-	-	-	-	6,020
Interest income	-	-	-	-	-	-	-	-	-	-	116
Donations	-	957	957	-	-	-	-	-	-	-	33,022
Total support and revenue	-	957	957	5,000	4,083	314	11,737	12,051	7,500	11,951	1,697,368
Expenses:											
Salaries and wages:											
Lawyers	-	-	-	3,154	2,634	19	7,967	7,986	5,959	416	666,128
Nonlawyers	-	-	-	722	653	106	1,254	1,360	162	8,625	586,157
Employee benefits	-	-	-	1,124	796	53	2,348	2,401	1,359	2,152	349,591
Program travel	-	-	-	-	-	-	-	-	20	555	42,628
Conference travel	-	-	-	-	-	-	-	-	-	203	22,409
Space expense	-	-	-	-	-	-	-	-	-	-	138,263
Office expenses	-	-	-	-	-	-	-	-	-	-	102,167
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	-	12,903
Library maintenance	-	-	-	-	-	-	-	-	-	-	13,759
Litigation costs	-	-	-	-	-	-	168	168	-	-	603
Subcontracted services	-	-	-	-	-	136	-	136	-	-	67,911
Depreciation	-	-	-	-	-	-	-	-	-	-	21,652
Equipment	-	-	-	-	-	-	-	-	-	-	14,343
Total expenses	-	-	-	5,000	4,083	314	11,737	12,051	7,500	11,951	2,038,514
Change in net assets	-	957	957	-	-	-	-	-	-	-	(341,146)
Net assets, beginning of year	1,333	54,480	55,813	-	-	-	-	-	-	-	1,617,737
Other changes in net assets:											
Disposition of property	-	-	-	-	-	-	-	-	-	-	(1,767)
Net assets - end of year	\$ 1,333	\$ 55,437	\$ 56,770	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,274,824

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY OF FUNDING SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018

Grant Number	Period	Total Grant Amount	Year Ended December 31, 2018
Legal Services Corporation			
2015001	01-01-18 to 12-31-18	\$ 472,447	\$ 472,447
2015001	01-01-18 to 12-31-18	295,883	295,883
Subtotal-Legal Services Corporation		<u>768,330</u>	<u>768,330</u>
North Dakota Department of Human Services			
Title III - 190-10703	07-01-17 to 06-30-18	250,000	81,856
Title III - 190-10703 (Amendment)	07-01-17 to 06-30-18	56,625	56,625
Title III - 190-11007	07-01-18 to 06-30-19	250,000	173,038
Title III - 190-11007 (Amendment)	07-01-18 to 06-30-19	86,541	-
Subtotal - ND DHS		<u>643,166</u>	<u>311,519</u>
State of North Dakota:			
State Judiciary Juvenile Drug Court	07-01-17 to 06-30-18	7,500	3,750
State Judiciary Juvenile Drug Court	07-01-18 to 06-30-19	7,500	3,750
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-18	50,400	25,200
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-18	18,000	8,827
Comm. On Legal Counsel for Indigents	07-01-18 to 06-30-19	50,400	25,200
Comm. On Legal Counsel for Indigents	07-01-18 to 06-30-19	18,000	8,769
Subtotal - State of North Dakota		<u>151,800</u>	<u>75,496</u>
Department of Justice Grants			
Native American Right Fund (NARF)			
2015-AL-BX-0001-Civil (extension)	10-01-15 to 09-30-18	18,013	867
2015-AL-BX-0001 Civil Amendment (extension)	10-01-15 to 09-30-18	6,671	6,671
2015-AL-BX-0002-Criminal (extension)	10-01-15 to 09-30-19	24,214	11,450
2015-AL-BX-0001-Civil (2016 Supplement)	10-01-16 to 09-30-18	18,013	4,413
2015-AL-BX-0001-Civil (2016 Sup. & Reduction)	10-01-16 to 09-30-18	(13,600)	-
2015-AL-BX-0002-Criminal (2016 Supplement)	10-01-16 to 09-30-17	24,214	-
Subtotal - DOJ- NARF		<u>77,525</u>	<u>23,401</u>
Office of Violence Against Women(OVW)			
OVW-STOP Grant (G17.488)	10-01-17 to 09-30-18	11,536	9,487
OVW-STOP Grant - Reduction	10-01-17 to 09-30-18	(703)	-
OVW-STOP Grant (G17.1034)	10-01-18 to 09-30-19	11,091	2,564
OVW-Bakken DV Grant	10-01-14 to 09-30-17	150,000	-
OVW-Bakken DV Grant (amendment)	10-01-17 to 12-31-18	30,000	22,952
OVW-Bakken DV Grant (amendment)	01-01-18 to 12-31-18	10,000	10,000
OVW-Bakken DV Grant (extra-funding)	01-01-18 to 12-31-18	2,309	2,309
Subtotal - DOJ-OVW		<u>214,233</u>	<u>47,312</u>
IRS-Volunteer Income Tax Assistance Grants (VITA)			
17VITA0184 (year Two)	08-01-17 to 07-31-18	20,675	18,839
19VITA0140	08-01-18 to 07-31-20	10,000	3,507
Subtotal - IRS		<u>30,675</u>	<u>22,346</u>
U.S. Department of Housing and Urban Development			
CDBG-City of Bismarck CFDA 14-218	03-14-18 to 03-13-19	4,500	4,083
Subtotal-CDBG		<u>4,500</u>	<u>4,083</u>
Other Grants:			
Surcharge-New Contract	07-01-17 to 06-30-19	313,003	313,003
United Ways	01-01-18 to 12-31-18	16,991	16,991
Interest on Lawyers Trust Accounts	01-01-18 to 12-31-18	30,000	30,000
Bush Prize Grant	12-05-14 to 12-31-19	397,383	-
ND Dept of Trust Lands/Mountrail County (Amended)	02-01-17 to 06-30-19	79,398	19,760
ND Attorney General/Mountrail County	02-01-17 to 06-30-19	26,466	9,568
Bank of America (BOA) Bar Foundation	04-20-17 to 04-20-20	908,131	-
Bush-Medical Legal Partnership (MLP)	08-01-17 to 08-31-20	208,000	-
CDBG - City of Fargo	12-19-17 to 12-19-18	5,000	5,000
Amercian College of Bankruptcy Foundation	11-09-18 to 12-31-19	8,000	8,000
Subtotal - other grants		<u>1,992,372</u>	<u>402,322</u>
Total grants and contracts		<u>\$ 3,882,600</u>	<u>\$ 1,654,809</u>

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor	CFDA Number	Pass-through/ Grantor's Number	Federal Expenditures Recognized
Legal Services Corporation, Inc:			
Base Grant	9.535007		\$ 471,048
Native American	9.535007		298,130
Total Legal Services Corporation			<u>769,178</u>
U.S. Department of Justice:			
Passed through Native American Rights Fund			
Tribal Civil Legal Assistance	16.815	2015-AL-BX 0001	11,951
Tribal Criminal Legal Assistance	16.815	2015-AL-BX 0002	11,450
Subtotal - Native American Rights Fund			<u>23,401</u>
Passed through N.D. Department of Health			
STOP Violence Against Women Grant	16.588	G15.488	9,487
STOP Violence Against Women Grant	16.588	G17.1034	2,690
Subtotal - N.D. Department of Health			<u>12,177</u>
Passed through CAWS North Dakota			
Violence Against Women - Bakken Region Initiative	16.589	2014-WR-AX-0036	35,261
Total U.S. Department of Justice			<u>70,839</u>
U.S. Department of Treasury:			
Volunteer Income Tax Assistance Program (VITA)	21.009		22,346
Total U.S. Department of Treasury			<u>22,346</u>
U.S. Department of Housing & Urban Development (HUD):			
Passed through the City of Bismarck			
Community Development Block Grant (CDBG)	14.218	B-17-38-0003	4,083
			<u>4,083</u>
Total Expenditures of Federal Awards			<u>\$ 866,446</u>

See Notes to the Schedule of Expenditures of Federal Awards

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Legal Services of North Dakota under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Legal Services of North Dakota, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization. The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are now allowable or limited as to reimbursement. Legal Services of North Dakota has not elected to use the 10-percent de minimis cost rate as allowed under Uniform Guidance.

**INDEPENDENT AUDITORS 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
Legal Services of North Dakota
Bismarck, North Dakota

We have audited, in accordance with the 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 Legal Services of North Dakota (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Services of North Dakota'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 Legal Services of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Legal Services of North Dakota'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item #2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Services of North Dakota'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*.

Legal Services of North Dakota's Response to Finding

Legal Services of North Dakota's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Legal Services of North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

April 23, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Legal Services of North Dakota
Bismarck, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Legal Services of North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *LSC Audit Guide and Compliance Supplement* that could have a direct and material effect on each of Legal Services of North Dakota's major federal programs for the year ended December 31, 2018. Legal Services of North Dakota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs.

Management's 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 each of Legal Services of North Dakota's major federal programs 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *LSC Audit Guide and Compliance Supplement*. Those standards, the Uniform Guidance and *LSC Audit Guide and Compliance Supplement* 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Legal Services of North Dakota'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 each major federal program. However, our audit does not provide a legal determination of Legal Services of North Dakota's compliance.

Opinion on Each Major Federal Program

In our opinion, Legal Services of North Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2018-002. Our opinion on the major federal program is not modified with respect to this matter.

Legal Services of North Dakota's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Legal Services of North Dakota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Legal Services of North Dakota 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 Legal Services of North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *LSC Audit Guide and Compliance Supplement*, 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 Legal Services of North Dakota'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 Uniform Guidance and *LSC Audit Guide and Compliance Supplement*. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

April 23, 2019

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> x </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> no
Noncompliance material to financial statements noted?	<u> </u> yes	<u> x </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> no

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> x </u> yes	<u> </u> no
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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9.535007	Legal Services Corporation, Inc. Base and Native American Grant
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Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$750,000 </u>
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Auditee qualified as a low-risk auditee?	<u> </u> yes	<u> x </u> no
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LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2018

Section II-Financial Statement Findings

2018-001: Material Adjustments – Material Weakness

Criteria

The Organization is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America (GAAP), and to determine that financial statements are properly stated in compliance with GAAP.

Condition

During our audit, material adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP. The Organization did not have internal resources for implementation of the new nonprofit GAAP disclosures.

Cause

The Organization's internal controls have not been designed to record all necessary adjustments to state financial information on a GAAP basis prior to audit and preparation of full disclosure financial statements in accordance with the new nonprofit disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted and all note disclosures are in compliance with GAAP prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account and all note disclosures prior to audit. We recommend that the Organization record all necessary journal entries and note disclosures to correctly state financial information on GAAP basis prior to audit.

Views of Responsible Officials and Planned Corrective Action

The Organization's internal controls will be evaluated and designed to record all necessary adjustments to state financial information on a GAAP basis prior to the audit. On a monthly basis, the financial statements will be balanced and all corrections made in a timely manner.

Indication of Repeat Finding

This finding is new for fiscal year 2018.

Section III-Federal Award Findings and Questioned Costs

2018-002: Failure to devote 12.5% of LSC Basic Field Award on Private Attorney Involvement – CFDA #9.535007 Legal Services Corporation, Inc. - Base Grant

Criteria

The Organization is required to devote 12.5% of their LSC basic field award to private attorney involvement in accordance with 45 CFR 1614.

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2018

Condition

The Organization failed to devote 12.5% of their LSC basis field award to private attorney involvement for the year ending December 31, 2018.

Cause

The Organization devoted \$51,183 to private attorney involvement during 2018. The LSC basic field award was \$472,447. As such the organization devoted 10.83% instead of the required 12.5%.

Questioned Cost

\$7,873

Effect

The Organization violated 45 CFR 1614.

Recommendation

We recommend that the Organization implement procedures to ensure at least 12.5% of the LSC basis field funding is devoted to private attorney involvement each year in accordance with 45 CFR 1614.

Indication of Repeat Finding

This finding is new for fiscal year 2018.

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2018

There are no findings which are required to be reported under this section.



LEGAL SERVICES OF NORTH DAKOTA

Administrative Office

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Bismarck, North Dakota 58501

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LEGAL SERVICES

of North Dakota

Corrective Action Plan – December 31, 2018

2018-001

Contact Person

Kim Kramer, Chief Fiscal Officer

Corrective Action Plan

Legal Services of North Dakota accounting personnel will evaluate its internal controls to record all necessary adjustments to state financial information on a GAAP basis prior to the annual audit. On a monthly basis, the financial statements will be balanced and all correcting journal entries will be made in a timely manner.

Completion Date

Fiscal year 2019

2018-002

Contact Person

Richard LeMay, Executive Director

Corrective Action Plan

LSND has not included in the past years, time entered into cases where paralegals and attorneys provided case supervision directly to the interns and externs. There simply wasn't a substantial amount of time to record. For example, in 2018 there was 60.1 hours entered into cases for case supervision to externs. However, with LSND opening an office in the law school and with the ABA's requirements on externships, the involvement with externs has changed substantially. Too accurately report this time for PAI purposes in 2019, training will be given to staff to properly input time when supervising externs and interns. We have also designed specific reporting mechanisms in our case management system to capture the data input. In addition to reporting the case supervision time, LSND has tried to recruit attorneys that would be willing to do other than the run of the mill family law cases. It has become difficult, if not impossible at times, to recruit attorneys for custody and divorce cases. LSND has been successful in recruiting at least one attorney so far to work on juvenile and non-ordinary family law cases in 2019. Both efforts will help LSND meet the 12.5% requirement in 2019.

Completion Date

Fiscal year 2019