

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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, 2019, 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.

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 also 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 May 14, 2020 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

May 14, 2020

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

	2019	(Memorandum Only) 2018
Current assets:		
Cash and cash equivalents	\$ 569,194	\$ 581,775
Client escrow funds	1,567	2,057
Grant receivable:		
BCI/ JAG	-	14,379
CDBG-City of Bismarck	-	403
AG - Human Trafficking	10,460	-
IRS - VITA	380	3,507
Bank of America (BOA) Bar Foundation	454,060	732,092
ND Bar Foundation	30,000	-
VOCA Formula Grant	8,789	-
NDDHS	27,528	45,820
ND Department of Health - S.T.O.P.	1,918	2,564
NARF	-	2,811
Juvenile Drug Court	-	625
SCJD	4,500	5,700
United Way	2,245	1,800
Other	2,743	-
Prepaid expenses	30,441	23,577
Total current assets	1,143,825	1,417,110
Property and equipment:		
Equipment in progress	36,285	-
Furniture and equipment	148,540	189,113
Less accumulated depreciation	(131,368)	(150,794)
Net property and equipment	53,457	38,319
Total assets	\$ 1,197,282	\$ 1,455,429

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 24,796	\$ 8,041
Accrued expenses	43,404	38,256
Accrued vacation payable	76,146	72,071
Client trust deposits	1,567	1,457
Total current liabilities	145,913	119,825
Net assets:		
Without donor restrictions	60,780	60,780
With donor restrictions	990,589	1,274,824
Total net assets	1,051,369	1,335,604
Total liabilities and net assets	\$ 1,197,282	\$ 1,455,429

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>(Memorandum Only) 2018 Total</u>
Support and revenue:				
Grants	\$ -	\$ 1,716,022	\$ 1,716,022	\$ 1,654,809
Other income	-	7,371	7,371	4,950
Training income	-	4,917	4,917	6,020
Interest income	-	1,372	1,372	1,510
Loss on disposal of equipment	-	(813)	(813)	(1,767)
Donations	-	15,248	15,248	33,022
Net assets released from restrictions:				
Satisfaction of grant restrictions	<u>2,028,352</u>	<u>(2,028,352)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,028,352</u>	<u>(284,235)</u>	<u>1,744,117</u>	<u>1,698,544</u>
Expenses:				
Program services:				
Senior citizen	576,771	-	576,771	559,755
Indian law	340,410	-	340,410	373,783
General law	476,907	-	476,907	494,163
Domestic violence	32,911	-	32,911	52,095
Housing program	175,020	-	175,020	183,550
Private attorney involvement	74,457	-	74,457	51,734
Human trafficking	39,316	-	39,316	31,349
Medical Legal Partnership	143,042	-	143,042	86,953
Community Education	<u>1,720</u>	<u>-</u>	<u>1,720</u>	<u>9,290</u>
Total program services	<u>1,860,555</u>	<u>-</u>	<u>1,860,555</u>	<u>1,842,672</u>
Supporting services:				
General administration	<u>167,797</u>	<u>-</u>	<u>167,797</u>	<u>194,556</u>
Total expenses	<u>2,028,352</u>	<u>-</u>	<u>2,028,352</u>	<u>2,037,228</u>
Change in net assets	<u>-</u>	<u>(284,235)</u>	<u>(284,235)</u>	<u>(338,684)</u>
Net assets, beginning of year	<u>60,780</u>	<u>1,274,824</u>	<u>1,335,604</u>	<u>1,674,288</u>
Net assets - end of year	<u>\$ 60,780</u>	<u>\$ 990,589</u>	<u>\$ 1,051,369</u>	<u>\$ 1,335,604</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services										Support Services	Total Expenses	(Memorandum Only) 2018
	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	2019	
Salaries and wages:													
Lawyers	\$ 175,996	\$ 75,397	\$ 188,400	\$ 20,010	\$ 97,045	\$ 7,825	\$ 26,490	\$ 75,739	\$ 109	\$ 667,011	\$ -	\$ 667,011	\$ 666,128
Nonlawyers	212,188	139,604	132,634	4,939	30,464	16,014	1,614	25,315	-	562,772	44,724	607,496	585,140
Employee benefits	100,341	52,499	74,446	4,951	28,192	7,334	6,260	26,906	32	300,961	40,425	341,386	349,322
Program travel	7,559	6,807	6,565	798	8,793	1,226	523	555	186	33,012	3,041	36,053	42,628
Conference travel	748	563	5,024	1,636	2,045	4,757	103	3,309	-	18,185	1,323	19,508	22,409
Space expense	34,142	30,013	29,387	-	2,369	-	-	3,015	-	98,926	19,652	118,578	138,263
Office expenses	21,199	18,569	21,250	15	3,372	291	253	3,059	1,376	69,384	22,037	91,421	102,167
Equipment rental & maintenance	3,193	4,811	4,143	-	-	-	-	-	-	12,147	3,634	15,781	12,903
Library maintenance	3,919	2,339	2,833	-	-	-	147	-	-	9,238	5,994	15,232	13,759
Litigation costs	377	10	268	134	-	-	-	-	-	789	-	789	603
Small equipment purchases	-	882	2,288	-	279	-	808	1,042	-	5,299	2,812	8,111	14,343
Subcontracted services	11,327	5,503	4,888	98	706	36,264	2,724	2,668	-	64,178	22,473	86,651	67,911
Total expenses before depreciation	570,989	336,997	472,126	32,581	173,265	73,711	38,922	141,608	1,703	1,841,902	166,115	2,008,017	2,015,576
Depreciation	5,782	3,413	4,781	330	1,755	746	394	1,434	17	18,653	1,682	20,335	21,652
Total expenses	\$ 576,771	\$ 340,410	\$ 476,907	\$ 32,911	\$ 175,020	\$ 74,457	\$ 39,316	\$ 143,042	\$ 1,720	\$ 1,860,555	\$ 167,797	\$ 2,028,352	\$ 2,037,228

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	(Memorandum Only) 2018
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (284,235)	\$ (338,684)
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	20,335	21,652
Loss on disposal of equipment	813	1,767
Effects on operating cash flows due to changes in:		
Accounts / pledges receivable	267,078	17,293
Prepaid expenses	(6,864)	3,862
Accounts payable	16,755	(9,780)
Accrued expenses / Accrued vacation payable	9,333	(12,372)
	<u>23,215</u>	<u>(316,262)</u>
Net cash provided (used) by operating activities		
Cash flows used by investing activities:		
Additions to property and equipment	<u>(36,286)</u>	<u>-</u>
	<u>(36,286)</u>	<u>-</u>
Net cash provided (used) by investing activities		
Net change in cash and cash equivalents	(13,071)	(316,262)
Cash and cash equivalents balances:		
Beginning of year	<u>583,832</u>	<u>900,094</u>
End of year	<u>\$ 570,761</u>	<u>\$ 583,832</u>
Cash and cash equivalents consists of:		
Cash and cash equivalents	\$ 569,194	\$ 581,775
Client escrow funds	1,567	2,057
	<u>\$ 570,761</u>	<u>\$ 583,832</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

Revenue and Revenue Recognition

The Organization recognizes grant revenue from grants when the grant is awarded and earned in accordance with grants terms. The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Consequently, at December 31, 2019, contributions of approximately \$454,512, have not been recognized in the accompanying statement of activities because the conditions on which they depend have not been met.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 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 \$5,000 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. Deposits for the purchase of equipment are reported as equipment in progress until the equipment is placed into service at which time it is reclassified as furniture and equipment and the calculation of depreciation is started.

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, 2019.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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, time cards and management's estimate.

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.

Implementation of New Accounting Standards

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and contributions made in

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Organization has adopted the provisions of the ASU in the accompanying financial statements.

Memorandum Only – Total Columns

The 2018 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.

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, 2019 was \$118,578.

Lease Commitments

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

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. In the year ending December 31, 2018, LSND did not meet its requirement, therefore a request and partial waiver was approved in the current year to reduce the PAI requirement to \$51,183 of the annualized grant award for the fiscal year 2018. LSND expended the full \$51,183 in PAI expenditures for the year ending December 31, 2018. For the year ended December 31, 2019 PAI expenditures amounted to 15.28%. This is based on the \$73,710 of total PAI expenditures from the LSC base grant, Native American grant, Title III, and other funding sources.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 5.80% carryover for the year ending December 31, 2019.

NOTE 5 RELATED PARTIES

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

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, 2019 was \$27,510. 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, 2019, the Organization had commitments to pay private attorneys up to \$19,252 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 accounts which, at times, may exceed federal insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains their cash deposits in large, well-capitalized financial institutions. The Organization has not experienced any losses in such accounts nor does the Organization believe it is exposed to any significant credit risk on cash accounts.

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, 2019

NOTE 9 SUBCONTRACT PAYMENTS

The Organization had the following subcontract payments for the year ended December 31, 2019:

	LSC Eligible Subcontracts													Total	
	Base Grant	Native American	Title III	Otto Bremer Foundation	Bremer Surcharge	Bush Foundation - MLP	Bush Foundation - Prize	Bank of America	BCI/ JAG	SBAND	SCJD	NDDOH - S.T.O.P	Teen Drug Court		
Subgrantees:															
Private Attorney Contracts	\$ 720	\$ -	\$ 1,757	\$ -	\$ 25,680	\$ -	\$ -	\$ -	\$ -	\$ 4,983	\$ 2,252	\$ -	\$ 871	\$ 36,263	
Miscellaneous Contracts	16,785	5,503	9,514	1,400	13,179	86	1,295	707	1,830	-	-	89	-	50,388	
Total subcontracted services	\$ 17,505	\$ 5,503	\$ 11,271	\$ 1,400	\$ 38,859	\$ 86	\$ 1,295	\$ 707	\$ 1,830	\$ 4,983	\$ 2,252	\$ 89	\$ 871	\$86,651	

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

NOTE 10 NET ASSETS

With Donor Restrictions

Net assets with donor restrictions as of December 31, 2019, 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, 2019:

LSC - Basic Field - Property	\$ 24,794
LSC - Native American	22,041
Surcharge	130,387
Bush Foundation - MLP	6,093
Otto Bremer Foundation	87,569
Bush Foundation - Prize	106,813
Bank of America	501,471
Bankruptcy Foundation	12,847
United Way	264
SBAND	19,252
SCJD	12,039
Donations	67,019
Total	<u>\$ 990,589</u>

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 \$2,028,352.

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, 2019, 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, 2019, 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, 2019 for general expenditures:

	2019
Cash and cash equivalents	\$ 569,194
Client escrow funds	1,567
Grants receivable	<u>539,880</u>
Total financial assets	1,110,641
Less Grantor-imposed restrictions:	
Funds restricted by grantor for grants and other purposes	(990,589)
Funds restricted for client escrow	<u>(1,567)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 118,485</u></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 positive cash generated by operations of \$23,105 for the fiscal year ended December 31, 2019.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

NOTE 14 FUTURE PRONOUNCEMENTS

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, 2020, and interim periods within fiscal years beginning after December 15, 2021.

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

With the exception of the new standard 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

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the Organization. While the Organization expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain. The Organization did receive approval for a Paycheck Protection Program Loan of \$291,100 from the Small Business Administration and additional COVID-19 funding of \$92,886 from LSC subsequent to year end. Subsequent events have been evaluated through May 14, 2020, 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, 2019

	LSC Base Grant			LSC Native American			LSC Property	VOCA			Title III		
	PAI	Non-PAI	Total Base Grant	PAI	Non-PAI	Total Native American		PAI	Non-PAI	Total VOCA Grant	PAI	Non-PAI	Total Title III
Support and revenue:													
Grants and contracts	\$ 22,873	\$ 459,466	\$ 482,339	\$ 2,281	\$ 297,143	\$ 299,424	\$ -	\$ 62	\$ 8,727	\$ 8,789	\$ 3,614	\$ 342,794	\$ 346,408
Other income	-	302	302	-	266	266	-	-	-	-	-	500	500
Training revenue	-	2,250	2,250	-	-	-	-	-	-	-	-	-	-
Interest income	-	1,372	1,372	-	-	-	-	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-	-	1,005	1,005
Total support and revenue	22,873	463,390	486,263	2,281	297,409	299,690	-	62	8,727	8,789	3,614	344,299	347,913
Expenses:													
Salaries and wages:													
Lawyers	4,938	121,789	126,727	779	74,918	75,697	-	16	2,231	2,247	358	110,361	110,719
Nonlawyers	8,250	149,489	157,739	616	108,513	109,129	-	38	1,641	1,679	1,068	124,549	125,617
Employee benefits	3,724	84,250	87,974	327	45,895	46,222	-	8	970	978	431	63,174	63,605
Program travel	612	7,457	8,069	329	3,991	4,320	-	-	256	256	-	5,330	5,330
Conference travel	4,338	4,261	8,599	230	564	794	-	-	-	-	-	706	706
Space expense	-	40,680	40,680	-	29,779	29,779	-	-	-	-	-	16,660	16,660
Office expenses	291	28,747	29,038	-	17,157	17,157	-	-	-	-	-	9,273	9,273
Equipment rental & maintenance	-	6,859	6,859	-	4,811	4,811	-	-	-	-	-	1,462	1,462
Library maintenance	-	7,149	7,149	-	2,339	2,339	-	-	-	-	-	3,092	3,092
Litigation costs	-	268	268	-	10	10	-	-	-	-	-	178	178
Subcontracted services	720	16,785	17,505	-	5,503	5,503	-	-	-	-	1,757	9,514	11,271
Depreciation	-	-	-	-	-	-	20,335	-	-	-	-	-	-
Equipment	-	539	539	-	2,162	2,162	(7,623)	-	3,629	3,629	-	-	-
Total expenses	22,873	468,273	491,146	2,281	295,642	297,923	12,712	62	8,727	8,789	3,614	344,299	347,913
Change in net assets	-	(4,883)	(4,883)	-	1,767	1,767	(12,712)	-	-	-	-	-	-
Net assets, beginning of year	-	4,883	4,883	-	20,274	20,274	38,319	-	-	-	-	-	-
Other changes in net assets:													
Disposition of property	-	-	-	-	-	-	(813)	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ -	\$ -	\$ -	\$ 22,041	\$ 22,041	\$ 24,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

	Surcharge			Bush Foundation - MLP			Bush Foundation - Prize			Bank of America		
	PAI	Non-PAI	Total Surcharge	PAI	Non-PAI	Total Bush Foundation - MLP	PAI	Non-PAI	Total Bush Foundation - Prize	PAI	Non-PAI	Total Bank of America
Support and revenue:												
Grants and contracts	\$ 31,698	\$ 266,732	\$ 298,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	15	139	154	192	436	628	284	1,066	1,350
Training revenue	-	-	-	-	400	400	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-	-	-
Total support and revenue	31,698	266,732	298,430	15	539	554	192	436	628	284	1,066	1,350
Expenses:												
Salaries and wages:												
Lawyers	1,301	83,165	84,466	12	64,332	64,344	-	12	12	-	96,776	96,776
Nonlawyers	3,522	122,551	126,073	-	25,207	25,207	1	84	85	-	30,358	30,358
Employee benefits	1,195	57,365	58,560	3	24,134	24,137	1	25	26	-	28,111	28,111
Program travel	-	3,371	3,371	-	745	745	190	(190)	-	96	8,793	8,889
Conference travel	-	792	792	-	3,310	3,310	-	-	-	188	2,045	2,233
Space expense	-	26,229	26,229	-	-	-	-	-	-	-	2,369	2,369
Office expenses	-	27,839	27,839	-	3,024	3,024	-	1,503	1,503	-	3,371	3,371
Equipment rental & maintenance	-	2,649	2,649	-	-	-	-	-	-	-	-	-
Library maintenance	-	2,541	2,541	-	-	-	-	-	-	-	-	-
Litigation costs	-	333	333	-	-	-	-	-	-	-	-	-
Subcontracted services	25,680	13,179	38,859	-	86	86	-	1,295	1,295	-	707	707
Grant payback	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	2,200	2,200	-	1,042	1,042	-	809	809	-	279	279
Total expenses	31,698	342,214	373,912	15	121,880	121,895	192	3,538	3,730	284	172,809	173,093
Change in net assets	-	(75,482)	(75,482)	-	(121,341)	(121,341)	-	(3,102)	(3,102)	-	(171,743)	(171,743)
Net assets, beginning of year	-	205,869	205,869	-	127,434	127,434	-	109,915	109,915	-	673,214	673,214
Other changes in net assets:												
Disposition of property	-	-	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ 130,387	\$ 130,387	\$ -	\$ 6,093	\$ 6,093	\$ -	\$ 106,813	\$ 106,813	\$ -	\$ 501,471	\$ 501,471

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

	IRS-VITA	United Way	John D. Kelly Memorial Fund	NARF - Criminal	SBAND-PAI	Bankruptcy Foundation Grant	Otto Bremer Foundation	IOLTA	NDCAWS	SCJD		
										PAI	Non-PAI	Total SCJD
Support and revenue:												
Grants and contracts	\$ 6,873	\$ 4,812	\$ -	\$ 13,131	\$ -	\$ 10,000	\$ 95,250	\$ 30,000	\$ -	\$ 3,028	\$ 69,824	\$ 72,852
Other income	-	-	1,727	-	-	-	-	-	2,444	-	-	-
Training revenue	-	-	-	-	-	-	-	-	2,267	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-	-	-
Total support and revenue	6,873	4,812	1,727	13,131	-	10,000	95,250	30,000	4,711	3,028	69,824	72,852
Expenses:												
Salaries and wages:												
Lawyers	-	-	-	196	369	-	6,322	23,000	3,901	49	38,268	38,317
Nonlawyers	4,445	2,400	1,594	10,146	1,972	-	108	-	261	494	8,058	8,552
Employee benefits	1,296	650	133	2,423	1,395	-	1,251	4,139	824	233	11,045	11,278
Program travel	1,132	1,762	-	366	-	1,125	-	-	-	-	411	411
Conference travel	-	-	-	-	-	1,335	-	-	1,636	-	-	-
Space expense	-	-	-	-	-	-	-	2,861	-	-	-	-
Office expenses	-	-	-	-	-	213	-	-	-	-	3	3
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Library maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Litigation costs	-	-	-	-	-	-	-	-	-	-	-	-
Subcontracted services	-	-	-	-	4,983	1,400	-	-	-	2,252	-	2,252
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	1,080	-	-	-	-	-	-
Total expenses	6,873	4,812	1,727	13,131	8,719	5,153	7,681	30,000	6,622	3,028	57,785	60,813
Change in net assets	-	-	-	-	(8,719)	4,847	87,569	-	(1,911)	-	12,039	12,039
Net assets, beginning of year	-	264	-	-	27,971	8,000	-	-	1,911	-	-	-
Other changes in net assets:												
Disposition of property	-	-	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ 264	\$ -	\$ -	\$ 19,252	\$ 12,847	\$ 87,569	\$ -	\$ -	\$ -	\$ 12,039	\$ 12,039

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

	NDDOH - S.T.O.P			Teen Drug Court			Donations	CDBG - City of Bismarck	BCI / JAG	Totals
	PAI	Non-PAI	Total NDDOH - S.T.O.P	PAI	Non-PAI	Total Teen Drug Court				
Support and revenue:										
Grants and contracts	\$ 2	\$ 10,443	\$ 10,445	\$ 942	\$ 6,708	\$ 7,650	\$ -	\$ 417	\$ 29,202	\$ 1,716,022
Other income	-	-	-	-	-	-	-	-	-	7,371
Training revenue	-	-	-	-	-	-	-	-	-	4,917
Interest income	-	-	-	-	-	-	-	-	-	1,372
Donations	-	-	-	-	-	-	14,243	-	-	15,248
Total support and revenue	2	10,443	10,445	942	6,708	7,650	14,243	417	29,202	1,744,930
Expenses:										
Salaries and wages:										
Lawyers	-	7,282	7,282	3	5,343	5,346	-	269	21,021	667,011
Nonlawyers	1	1,166	1,167	50	211	261	-	75	628	607,496
Employee benefits	1	1,906	1,907	18	1,138	1,156	-	73	5,248	341,386
Program travel	-	-	-	-	16	16	-	-	261	36,053
Conference travel	-	-	-	-	-	-	-	-	103	19,508
Space expense	-	-	-	-	-	-	-	-	-	118,578
Office expenses	-	-	-	-	-	-	-	-	-	91,421
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	15,781
Library maintenance	-	-	-	-	-	-	-	-	111	15,232
Litigation costs	-	-	-	-	-	-	-	-	-	789
Subcontracted services	-	89	89	871	-	871	-	-	1,830	86,651
Grant payback	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	20,335
Equipment	-	-	-	-	-	-	3,994	-	-	8,111
Total expenses	2	10,443	10,445	942	6,708	7,650	3,994	417	29,202	2,028,352
Change in net assets	-	-	-	-	-	-	10,249	-	-	(283,422)
Net assets, beginning of year	-	-	-	-	-	-	56,770	-	-	1,274,824
Other changes in net assets:										
Disposition of property	-	-	-	-	-	-	-	-	-	(813)
Net assets - end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,019	\$ -	\$ -	\$ 990,589

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY OF FUNDING SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019

Grant Number	Period	Total Grant Amount	Year Ended December 31, 2019
Legal Services Corporation			
2015001	01-01-19 to 12-31-19	\$ 482,339	\$ 482,339
2015001	01-01-19 to 12-31-19	299,424	299,424
Subtotal-Legal Services Corporation		<u>781,763</u>	<u>781,763</u>
North Dakota Department of Human Services			
Title III - 190-11007	07-01-18 to 06-30-19	250,000	76,962
Title III - 190-11007 (Amendment)	07-01-18 to 06-30-19	86,541	86,541
Title III - 190-11248	07-01-19 to 06-30-20	300,000	182,905
Title III - 190-11248 (Amendment)	07-01-19 to 06-30-20	22,568	-
Subtotal - ND DHS		<u>659,109</u>	<u>346,408</u>
State of North Dakota:			
State Judiciary Juvenile Drug Court	07-01-18 to 06-30-19	7,500	3,750
State Judiciary Juvenile Drug Court	07-01-19 to 06-30-21	7,800	3,900
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-19	50,400	25,200
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-19	18,000	10,152
Comm. On Legal Counsel for Indigents	07-01-19 to 06-30-21	54,000	27,000
Comm. On Legal Counsel for Indigents	07-01-19 to 12-31-19	12,600	10,500
Subtotal - ND Juvenile Grants		<u>150,300</u>	<u>80,502</u>
ND Attorney General's Office - Human Trafficking			
ND Dept of Trust Lands/Mountrail County (Amended)	02-01-17 to 06-30-19	79,398	-
ND Attorney General/Mountrail County - HT Grant	10-01-16 to 09-30-19	26,466	16,905
ND Attorney General/Mountrail - HT Grant - HT21007	07-01-19 to 06-30-21	166,034	12,297
Subtotal - ND Attorney General		<u>271,898</u>	<u>29,202</u>
Subtotal - State of North Dakota		<u>422,198</u>	<u>109,704</u>
Department of Justice Grants			
Native American Right Fund (NARF)			
2015-AL-BX-0002-Criminal (extension)	10-01-15 to 09-30-19	24,214	10,053
2015-AL-BX-0002-Criminal (2016 Supplement)	10-01-16 to 09-30-18	24,214	3,078
2015-AL-BX-0002-Criminal (2016 Sup - Reduction)	10-01-16 to 09-30-19	(21,136)	-
Subtotal - DOJ- NARF		<u>27,292</u>	<u>13,131</u>
Montana Legal Services Association (MLSA)			
2018-AL-BK-0001 Criminal (Supplement 01)	10-01-18 to 09-30-21	16,112	-
2018-AL-BK-0002 Civil (Supplement 01)	10-01-18 to 09-30-21	13,568	-
		<u>29,680</u>	<u>-</u>
Office of Violence Against Women(OVW)			
OVW-STOP Grant (G17.1034)	10-01-18 to 09-30-19	11,091	8,527
OVW-STOP Grant (G19.403)	10-01-19 to 09-30-20	16,000	1,919
Subtotal - DOJ-OVW		<u>27,091</u>	<u>10,446</u>
Office of Victims of Crime(OVC)			
2017-BA-GX-0039 - FY 2020 VOCA Grant	10-01-19 to 09-30-20	82,500	8,789
Subtotal - IRS		<u>82,500</u>	<u>8,789</u>
IRS - Volunteer Income Tax Assistance Grants (VITA)			
19VITA0140 (1st year of award)	08-01-18 to 07-31-19	10,000	6,493
19VITA0140 (2nd year of award)	08-01-19 to 07-31-20	12,000	380
Subtotal-CDBG		<u>22,000</u>	<u>6,873</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	417
Subtotal-CDBG		<u>4,500</u>	<u>417</u>
Other Grants:			
Surcharge-Old Contract	07-01-17 to 06-30-19	153,432	153,432
Surcharge-New Contract	07-01-19 to 06-30-21	144,997	144,997
United Ways	01-01-19 to 12-31-19	4,812	4,812
Interest on Lawyers Trust Accounts	01-01-19 to 12-31-19	30,000	30,000
Bush Prize Grant	12-05-14 to 12-31-19	397,383	-
Bank of America (BOA) Bar Foundation	04-20-17 to 04-20-21	908,131	-
Bush-Medical Legal Partnership (MLP)	08-01-17 to 08-31-20	208,000	-
Otto Bremer Foundation - MLP - Grant #19-51518	08-15-19 to 08-15-20	95,250	95,250
American College of Bankruptcy Foundation	11-09-18 to 12-31-19	8,000	-
American College of Bankruptcy Foundation(Reduction)	11-09-18 to 12-31-19	(2,847)	-
American College of Bankruptcy Foundation	11-12-19 to 12-31-20	10,000	10,000
Subtotal - other grants		<u>1,957,158</u>	<u>438,491</u>
Total grants and contracts		<u>\$ 4,013,291</u>	<u>\$ 1,716,022</u>

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor	CFDA Number	Pass-through/ Grantor's Number	Federal Expenditures Recognized
Legal Services Corporation, Inc:			
Base Grant	9.535007		\$ 491,146
Native American	9.535007		297,923
Total Legal Services Corporation			<u>789,069</u>
U.S. Department of Justice:			
Passed through Native American Rights Fund			
Tribal Criminal Legal Assistance	16.815	2015-AL-BX 0002	13,131
Passed through N.D. Department of Health			
STOP Violence Against Women Grant	16.588	G17.1034	8,526
STOP Violence Against Women Grant	16.588	G19.403	1,919
Subtotal - N.D. Department of Health			<u>10,445</u>
Passed through ND Department of Corrections & Rehab			
VOCA Formula Grant - Victims of Crime Act	16.575	2017-BA-GX-0039	8,789
Total U.S. Department of Justice			<u>32,365</u>
U.S. Department of Treasury:			
Volunteer Income Tax Assistance Program (VITA)	21.009		6,873
Total U.S. Department of Treasury			<u>6,873</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	417
			<u>417</u>
Total Expenditures of Federal Awards			<u>\$ 828,724</u>

Note: See Note 1 to the financial statements for the Organization's significant accounting policies.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 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.

NOTE 2 INDIRECT COST RATE

Legal Services of North Dakota has not elected to use the 10-percent de minimis cost rate as allowed under Uniform Guidance.

NOTE 3 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, 2019. 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.

**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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 14, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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**

May 14, 2020

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, 2019. 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, 2019.

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

May 14, 2020

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2019

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?	_____ yes	<u> x </u> no
Significant deficiency(ies) identified?	_____ yes	<u> x </u> no
Noncompliance material to financial statements noted?	_____ yes	<u> x </u> no

Federal Awards

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

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes	<u> x </u> no

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
9.535007	Legal Services Corporation, Inc. Base and Native American Grant

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as a low-risk auditee?	_____ yes <u> x </u> no

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
DECEMBER 31, 2019

Section II-Financial Statement Findings

There are no findings to be reported in this section.

Section III-Federal Award Findings and Questioned Costs

There are no findings to be reported in this section.

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2019

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 was corrected in the current year.

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
DECEMBER 31, 2019

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.

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.

Current Status

This finding was corrected in the current year.