

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

## TABLE OF CONTENTS

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Functional Activities of Temporarily Restricted Net Assets	15
Summary of Funding Schedule	19
Schedule of Expenditures of Federal Awards	20
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	21
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE</b>	23
<b>SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS</b>	26
<b>SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS</b>	29
<b>CORRECTIVE ACTION PLAN</b>	31



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### Report of 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, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2015, and the 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 Matter**

### *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 temporarily restricted net assets 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 basic financial statements. The schedule of functional activities of temporarily restricted net assets, the summary of funding schedule and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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 25, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Services of North Dakota's internal control over financial reporting and compliance.

## **Report on Summarized Comparative Information**

We have previously audited the Legal Services of North Dakota's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



**BRADY, MARTZ & ASSOCIATES, P.C.**

BISMARCK, NORTH DAKOTA

April 25, 2016

**LEGAL SERVICES OF NORTH DAKOTA**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

**ASSETS**

	2015	(Memorandum only) 2014
	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 1,054,894	\$ 1,221,459
Client escrow funds	1,159	1,324
Grant receivables:		
CDBG-CITY OF BISMARCK	782	-
ND HOMELESS GRANT	8,194	5,446
IRS - VITA	6,180	6,075
ND CAWS	20,449	1,734
NDDHS	63,167	17,051
ND Bar Foundation - IOLTA	-	17,500
ND Department of Health	564	584
NARF	11,666	12,266
Prepaid expenses	6,470	32,932
Total current assets	<u>1,173,525</u>	<u>1,316,371</u>
Property and equipment:		
Furniture and equipment	273,598	280,409
Less accumulated depreciation	<u>186,471</u>	<u>256,561</u>
Net property and equipment	<u>87,127</u>	<u>23,848</u>
Total assets	<u><u>\$ 1,260,652</u></u>	<u><u>\$ 1,340,219</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable	\$ 18,699	\$ 10,991
Accrued expenses	38,544	60,770
Accrued vacation payable	54,163	58,511
Client trust deposits	<u>1,159</u>	<u>1,324</u>
Total current liabilities	<u>112,565</u>	<u>131,596</u>
Net assets:		
Unrestricted	35,044	34,638
Temporarily restricted	<u>1,113,043</u>	<u>1,173,985</u>
Total net assets	<u>1,148,087</u>	<u>1,208,623</u>
Total liabilities and net assets	<u><u>\$ 1,260,652</u></u>	<u><u>\$ 1,340,219</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**LEGAL SERVICES OF NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	2015 Total	(Memorandum Only) 2014 Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Support and revenue:				
Grants	\$ -	\$ 1,604,745	\$ 1,604,745	\$ 2,139,584
Other income	560	18,761	19,321	23,339
Training income	-	2,377	2,377	2,500
Interest income	-	1,099	1,099	555
Donations	-	21,241	21,241	31,330
Net assets released from restrictions:				
Satisfaction of grant restrictions	<u>1,709,165</u>	<u>(1,709,165)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,709,725</u>	<u>(60,942)</u>	<u>1,648,783</u>	<u>2,197,308</u>
Expenses:				
Program services:				
Senior citizen	428,870	-	428,870	432,637
Indian law	315,156	-	315,156	338,877
General law	473,056	-	473,056	419,629
Domestic Violence Program	51,314	-	51,314	778
Housing program	77,280	-	77,280	90,309
Private attorney involvement	<u>115,159</u>	<u>-</u>	<u>115,159</u>	<u>106,669</u>
Total program services	<u>1,460,835</u>	<u>-</u>	<u>1,460,835</u>	<u>1,388,899</u>
Supporting services:				
General administration	<u>248,484</u>	<u>-</u>	<u>248,484</u>	<u>240,196</u>
Total expenses	<u>1,709,319</u>	<u>-</u>	<u>1,709,319</u>	<u>1,629,095</u>
Change in net assets	406	(60,942)	(60,536)	568,213
Net assets, beginning of year	<u>34,638</u>	<u>1,173,985</u>	<u>1,208,623</u>	<u>640,410</u>
Net assets - end of year	<u>\$ 35,044</u>	<u>\$ 1,113,043</u>	<u>\$ 1,148,087</u>	<u>\$ 1,208,623</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**LEGAL SERVICES OF NORTH DAKOTA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Program Services							Support Services	Total Expenses	
	Senior Citizens	Indian Law	General Law	Domestic Violence Program	Housing Program	Private Attorney Involvement	Total	General Administration	2015	(Memorandum Only) 2014
Salaries and wages:										
Lawyers	\$ 114,133	\$ 18,832	\$ 182,225	\$ 29,378	\$ 38,829	\$ 30,136	\$ 413,533	\$ 14,643	\$ 428,176	\$ 431,552
Nonlawyers	166,364	131,588	126,918	7,254	8,518	29,124	469,766	63,235	533,001	499,480
Employee benefits	77,853	39,474	74,752	7,504	13,058	15,731	228,372	44,623	272,995	272,645
Program travel	5,705	9,340	5,054	388	1,112	432	22,031	4,614	26,645	39,666
Conference travel	1,730	6,834	3,053	1,744	3,219	8,969	25,549	3,455	29,004	12,055
Space expense	27,950	24,579	30,811	1,375	5,233	-	89,948	48,725	138,673	120,480
Office expenses	19,255	14,203	30,364	1,654	4,169	-	69,645	27,867	97,512	103,913
Equipment rental & maintenance	1,811	1,358	3,146	43	294	-	6,652	1,862	8,514	6,687
Library maintenance	2,171	1,455	3,049	106	473	-	7,254	6,037	13,291	13,689
Litigation costs	221	-	515	361	140	-	1,237	-	1,237	799
Small equipment purchases	626	1,117	3,416	30	23	-	5,212	2,344	7,556	4,860
Subcontracted services	6,941	63,356	5,220	985	1,471	29,663	107,636	28,698	136,334	108,538
<b>Total expenses before depreciation</b>	<b>424,760</b>	<b>312,136</b>	<b>468,523</b>	<b>50,822</b>	<b>76,539</b>	<b>114,055</b>	<b>1,446,835</b>	<b>246,103</b>	<b>1,692,938</b>	<b>1,614,364</b>
Depreciation	4,110	3,020	4,533	492	741	1,104	14,000	2,381	16,381	14,731
<b>Total expenses</b>	<b>\$ 428,870</b>	<b>\$ 315,156</b>	<b>\$ 473,056</b>	<b>\$ 51,314</b>	<b>\$ 77,280</b>	<b>\$ 115,159</b>	<b>\$ 1,460,835</b>	<b>\$ 248,484</b>	<b>\$ 1,709,319</b>	<b>\$ 1,629,095</b>

SEE NOTES TO THE FINANCIAL STATEMENTS



**LEGAL SERVICES OF NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash flows from operating activities:	
Change in net assets	\$ (60,536)
Adjustments to reconcile change in net assets to cash from operating activities:	
Depreciation	16,381
Effects on operating cash flows due to changes in:	
Accounts / pledges receivable	(50,347)
Prepaid expenses	26,462
Accounts payable	7,708
Accrued expenses / Accrued vacation payable	<u>(26,574)</u>
Net cash provided by operating activities	<u>(86,906)</u>
Cash flows used by investing activities:	
Additions to property and equipment	<u>(79,659)</u>
Net change in cash and cash equivalents	(166,565)
Cash and cash equivalents balances:	
Beginning of year	<u>1,221,459</u>
End of year	<u><u>\$ 1,054,894</u></u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**LEGAL SERVICES OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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 44% 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.

**Restricted and Unrestricted Revenue and Support**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net position and reported in the Statement of Activities as net assets released from restrictions.

**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 temporarily restricted net assets to unrestricted net assets at that time.

**LEGAL SERVICES OF NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2015

**Property and Equipment**

The Organization capitalized 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, 2015.

**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.

**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.

**LEGAL SERVICES OF NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2015

**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 2014 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 2020. The Organization is committed to pay rentals over the next five years. Total rent expense for the year ended December 31, 2015 was \$132,115.

**Lease Commitments**

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

2016	\$133,858
2017	117,558
2018	115,344
2019	33,060
2020	8,265

**LEGAL SERVICES OF NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2015

**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, 2015 it amounted to 25.73%. This is based on the \$115,159 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 a 6.18% carryover for the year ending December 31, 2015.

**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, 2015 was \$26,044. 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, 2015, the Organization had commitments to pay private attorneys up to \$11,839 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, 2015, 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, 2015**

**NOTE 9 SUBCONTRACT PAYMENTS**

The Organization had the following subcontract payments for the year ended December 31, 2015:

	LSC Eligible Subcontracts															Total	
	Base Grant	Native American	Title III	Otto Bremer Foundation	Surcharge	IOLTA	Dept of Commerce	CJA	SBAND	NAFR-Civil	NAFR-Criminal	Bush Foundation	STOP	CAWS	CDBG		SCJD
Subgrantees:																	
Private Attorney Contracts	\$ -	\$ -	\$ -	\$ -	\$ 2,839	\$ -	\$ -	\$ -	\$ 25,736	\$ -	\$ -	\$ -	\$ 740	\$ 349	\$ -	\$ -	\$ 29,664
Miscellaneous Contracts	17,300	45,040	8,374	1,267	9,742	2,264	175	1,364	-	2,085	14,361	2,848	402	46	39	1,364	106,671
Total subcontracted services	\$ 17,300	\$45,040	\$8,374	\$ 1,267	\$ 12,581	\$2,264	\$ 175	\$1,364	\$25,736	\$ 2,085	\$14,361	\$ 2,848	\$1,142	\$395	\$ 39	\$1,364	\$136,335

**LEGAL SERVICES OF NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2015

**NOTE 10 NET ASSETS**

**Temporarily Restricted**

Net assets temporarily restricted as of December 31, 2015, 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) to be used for the legal services of individuals in the state of North Dakota.

The Organization also received grants from United Way, Surcharge, IRS-VITA, SCJD, NARF, State Judiciary Juvenile Drug Court, Department of Commerce, CJA, NDCAWS, CDBG – City of Bismarck, 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 temporarily restricted net assets consist of the following as of December 31, 2015:

LSC - Basic Field	\$ 113,558
LSC - Native American	17,919
Otto Bremer Foundation	118,539
Surcharge	393,760
Three Affiliated Tribes	438
Fair Housing of the Dakotas	7,188
Interest on Lawyers Trust Accounts	40,829
Bush Foundation	308,710
CJA	12,192
United Way	27,134
PD-Immigration	176
SBAND	19,216
SCJD	13,703
Teen Drug Court	173
Donations	39,508
Total	<u>\$ 1,113,043</u>

**LEGAL SERVICES OF NORTH DAKOTA**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2015

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 \$1,709,165.

The Organization had no permanently restricted net assets as of December 31, 2015.

**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, 2015, 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 SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through April 25, 2016, which is the date these financial statements were available to be issued.



**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	LSC Base Grant			LSC Native American			Otto Bremer Foundation				
	PAI	Non-PAI	Total Base Grant	PAI	Non-PAI	Total Native American	LSC Property	Title III	PAI	Non-PAI	Total Otto Bremer
Support and revenue:											
Grants and contracts	\$ 80,871	\$ 366,706	\$ 447,577	\$ 695	\$ 269,337	\$ 270,032	\$ -	\$ 312,750	\$ -	\$ -	\$ -
Other income	-	1,691	1,691	-	-	-	-	-	320	1,850	2,170
Training revenue	-	2,250	2,250	-	-	-	-	127	-	-	-
Interest income	-	1,099	1,099	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	581	-	-	-
<b>Total support and revenue</b>	<b>80,871</b>	<b>371,746</b>	<b>452,617</b>	<b>695</b>	<b>269,337</b>	<b>270,032</b>	<b>-</b>	<b>313,458</b>	<b>320</b>	<b>1,850</b>	<b>2,170</b>
Expenses:											
Salaries and wages:											
Lawyers	29,890	87,228	117,118	-	25,230	25,230	-	85,887	-	30,509	30,509
Nonlawyers	27,538	117,943	145,481	6	120,908	120,914	-	122,480	-	6,428	6,428
Employee benefits	15,075	49,187	64,262	3	37,946	37,949	-	55,577	-	10,108	10,108
Program travel	255	6,910	7,165	467	3,917	4,384	-	2,630	320	655	975
Conference travel	8,113	3,887	12,000	219	1,933	2,152	-	1,213	-	3,539	3,539
Space expense	-	49,461	49,461	-	23,489	23,489	-	21,787	-	4,351	4,351
Office expenses	-	34,829	34,829	-	13,193	13,193	-	12,257	-	4,169	4,169
Equipment rental & maintenance	-	3,481	3,481	-	1,358	1,358	-	1,253	-	294	294
Library maintenance	-	5,311	5,311	-	1,455	1,455	-	1,938	-	473	473
Litigation costs	-	515	515	-	-	-	-	25	-	140	140
Subcontracted services	-	17,300	17,300	-	45,040	45,040	-	8,374	-	1,267	1,267
Depreciation	-	-	-	-	-	-	16,381	-	-	-	-
Equipment	-	2,411	2,411	-	509	509	-	37	-	23	23
<b>Total expenses</b>	<b>80,871</b>	<b>378,463</b>	<b>459,334</b>	<b>695</b>	<b>274,978</b>	<b>275,673</b>	<b>16,381</b>	<b>313,458</b>	<b>320</b>	<b>61,956</b>	<b>62,276</b>
Change in net assets	-	(6,716)	(6,717)	-	(5,641)	(5,641)	(16,381)	-	-	(60,106)	(60,106)
Net assets, beginning of year	-	33,149	33,149	-	23,560	23,560	23,848	-	-	178,645	178,645
Other changes in net assets:											
Acquisition of property	-	-	-	-	-	-	79,659	-	-	-	-
<b>Net assets - end of year</b>	<b>\$ -</b>	<b>\$ 26,433</b>	<b>\$ 26,432</b>	<b>\$ -</b>	<b>\$ 17,919</b>	<b>\$ 17,919</b>	<b>\$ 87,126</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 118,539</b>	<b>\$ 118,539</b>

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Surcharge			Three Affiliated Tribes	Fair Housing of the Dakotas	IOLTA	Bush Foundation	Department of Commerce	CJA	IRS-VITA	United Way
	PAI	Non-PAI	Total Surcharge								
Support and revenue:											
Grants and contracts	\$ 2,921	\$ 321,319	\$ 324,240	\$ -	\$ -	\$ 35,000	\$ -	\$ 22,323	\$ 21,947	\$ 15,629	\$ 15,560
Other income	-	-	-	2,500	-	-	500	-	-	-	-
Training revenue	-	-	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-	-
<b>Total support and revenue</b>	<b>2,921</b>	<b>321,319</b>	<b>324,240</b>	<b>2,500</b>	<b>-</b>	<b>35,000</b>	<b>500</b>	<b>22,323</b>	<b>21,947</b>	<b>15,629</b>	<b>15,560</b>
Expenses:											
Salaries and wages:											
Law yers	57	35,219	35,276	33	-	20,748	411	13,047	9,343	-	2,216
Nonlaw yers	-	79,600	79,600	2,113	-	3,336	1,888	2,831	4,949	10,733	6,940
Employee benefits	25	52,131	52,156	683	-	11,701	431	4,387	3,674	3,271	2,384
Program travel	-	4,942	4,942	-	-	-	555	138	-	1,225	2,907
Conference travel	-	2,239	2,239	-	-	-	5,758	-	-	-	-
Space expense	-	23,803	23,803	1,090	-	7,836	1,250	882	2,363	-	-
Office expenses	-	19,340	19,340	622	-	6,071	2,979	-	442	-	875
Equipment rental & maintenance	-	1,408	1,408	-	-	353	285	-	42	-	-
Library maintenance	-	2,307	2,307	-	-	1,291	-	-	258	-	-
Litigation costs	-	385	385	-	-	-	-	-	-	-	-
Subcontracted services	2,839	9,742	12,581	-	-	2,264	2,848	175	1,364	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	1,647	1,647	-	-	-	3,713	864	-	400	-
<b>Total expenses</b>	<b>2,921</b>	<b>232,763</b>	<b>235,684</b>	<b>4,541</b>	<b>-</b>	<b>53,600</b>	<b>20,118</b>	<b>22,323</b>	<b>22,435</b>	<b>15,629</b>	<b>15,322</b>
Change in net assets	-	88,556	88,556	(2,041)	-	(18,600)	(19,618)	-	(488)	-	238
Net assets, beginning of year	-	306,389	306,389	2,479	7,188	59,429	406,804	-	12,680	-	26,896
Other changes in net assets:											
Acquisition of property	-	(1,184)	(1,184)	-	-	-	(78,475)	-	-	-	-
<b>Net assets - end of year</b>	<b>\$ -</b>	<b>\$ 393,761</b>	<b>\$ 393,761</b>	<b>\$ 438</b>	<b>\$ 7,188</b>	<b>\$ 40,829</b>	<b>\$ 308,711</b>	<b>\$ -</b>	<b>\$ 12,192</b>	<b>\$ -</b>	<b>\$ 27,134</b>

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	PD- Immigration	NARF- Criminal	SBAND-PAI	Fredrickson & Byron Foundation	SCJD	NDCAWS		Total NDCAWS	John D. Kelly Memorial Fund
						PAI	Non-PAI		
Support and revenue:									
Grants and contracts	\$ -	\$ 23,352	\$ -	\$ -	\$ 50,382	\$ 376	\$ 34,677	\$ 35,053	\$ -
Other income	-	-	8,000	-	450	-	1,800	1,800	1,650
Training revenue	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-
Donations	-	-	12,000	-	-	-	-	-	-
<b>Total support and revenue</b>	<b>-</b>	<b>23,352</b>	<b>20,000</b>	<b>-</b>	<b>50,832</b>	<b>376</b>	<b>36,477</b>	<b>36,853</b>	<b>1,650</b>
Expenses:									
Salaries and wages:									
Lawyers	-	45	246	7,835	37,915	-	27,720	27,720	-
Nonlawyers	-	6,944	1,518	-	6,948	-	1,409	1,409	2,219
Employee benefits	-	2,002	626	2,165	10,820	-	5,065	5,065	301
Program travel	-	-	-	-	430	27	295	322	-
Conference travel	-	-	-	-	332	-	1,770	1,770	-
Space expense	-	-	-	-	2,363	-	-	-	-
Office expenses	-	-	-	-	339	-	-	-	-
Equipment rental & maintenance	-	-	-	-	42	-	-	-	-
Library maintenance	-	-	-	-	258	-	-	-	-
Litigation costs	-	-	-	-	-	-	172	172	-
Subcontracted services	-	14,361	25,736	-	1,364	349	46	395	-
Depreciation	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>-</b>	<b>23,352</b>	<b>28,126</b>	<b>10,000</b>	<b>60,811</b>	<b>376</b>	<b>36,477</b>	<b>36,853</b>	<b>2,520</b>
Change in net assets	-	-	(8,126)	(10,000)	(9,979)	-	-	-	(870)
Net assets, beginning of year	176	-	27,342	10,000	23,682	-	-	-	870
Other changes in net assets:									
Acquisition of property	-	-	-	-	-	-	-	-	-
<b>Net assets - end of year</b>	<b>\$ 176</b>	<b>\$ -</b>	<b>\$ 19,216</b>	<b>\$ -</b>	<b>\$ 13,703</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Donations					NDDOH-STOP			NARF Civil			Totals
	PAI	Non-PAI	Total Donations	CDBG - City of Bismarck	Teen Drug Court	PAI	Non-PAI	Total STOP	PAI	Non-PAI	Total NARF Civil	
Support and revenue:												
Grants and contracts	\$ -	\$ -	\$ -	\$ 3,885	\$ 7,350	\$ 740	\$ 6,699	\$ 7,439	\$ 9	\$ 12,217	\$ 12,226	\$ 1,604,745
Other income	-	-	-	-	-	-	-	-	-	-	-	18,761
Training revenue	-	-	-	-	-	-	-	-	-	-	-	2,377
Interest income	-	-	-	-	-	-	-	-	-	-	-	1,099
Donations	-	8,660	8,660	-	-	-	-	-	-	-	-	21,241
<b>Total support and revenue</b>	<b>-</b>	<b>8,660</b>	<b>8,660</b>	<b>3,885</b>	<b>7,350</b>	<b>740</b>	<b>6,699</b>	<b>7,439</b>	<b>9</b>	<b>12,217</b>	<b>12,226</b>	<b>1,648,222</b>
Expenses:												
Salaries and wages:												
Lawyers	-	-	-	2,450	5,454	-	4,881	4,881	6	1,810	1,816	428,178
Nonlawyers	-	-	-	601	139	-	-	-	-	5,529	5,529	533,000
Employee benefits	-	-	-	795	1,584	-	1,166	1,166	3	1,886	1,889	272,996
Program travel	-	-	-	-	-	-	66	66	-	907	907	26,645
Conference travel	-	-	-	-	-	-	-	-	-	-	-	29,003
Space expense	-	-	-	-	-	-	-	-	-	-	-	138,673
Office expenses	-	-	-	-	-	-	184	184	-	-	-	95,300
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	-	-	8,515
Library maintenance	-	-	-	-	-	-	-	-	-	-	-	13,291
Litigation costs	-	-	-	-	-	-	-	-	-	-	-	1,238
Subcontracted services	-	-	-	39	-	740	402	1,142	-	2,085	2,085	136,335
Depreciation	-	-	-	-	-	-	-	-	-	-	-	16,381
Equipment	-	-	-	-	-	-	-	-	-	-	-	9,604
<b>Total expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,885</b>	<b>7,177</b>	<b>740</b>	<b>6,699</b>	<b>7,439</b>	<b>9</b>	<b>12,217</b>	<b>12,226</b>	<b>1,709,165</b>
Change in net assets	-	8,660	8,660	-	173	-	-	-	-	-	-	(60,942)
Net assets, beginning of year	1,333	29,515	30,848	-	-	-	-	-	-	-	-	1,173,985
Other changes in net assets:												
Acquisition of property	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net assets - end of year</b>	<b>\$ 1,333</b>	<b>\$ 38,175</b>	<b>\$ 39,508</b>	<b>\$ -</b>	<b>\$ 173</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,113,043</b>

**LEGAL SERVICES OF NORTH DAKOTA**  
**SUMMARY OF FUNDING SCHEDULE**  
**DECEMBER 31, 2015**

Grant Number	Period	Total Grant Amount	Year Ended December 31, 2015
Legal Services Corporation			
2012001	01-01-15 to 12-31-15	\$ 447,577	\$ 447,577
2012001	01-01-15 to 12-31-15	270,032	270,032
Subtotal-Legal Services Corporation		<u>717,609</u>	<u>717,609</u>
North Dakota Department of Human Services			
Title III - OSA:	01-01-15 to 12-31-15	250,000	250,000
Title III - OSA - Amendment	09-01-15 to 06-30-16	187,750	62,750
Subtotal - ND DHS		<u>437,750</u>	<u>312,750</u>
State of North Dakota:			
State Judiciary Juvenile Drug Court	01-01-15 to 06-30-15	7,200	3,600
State Judiciary Juvenile Drug Court	07-01-15 to 06-30-18	7,500	3,750
Comm. On Legal Counsel for Indigents	01-01-14 to 12-31-14	62,364	31,182
Comm. On Legal Counsel for Indigents	07-01-15 to 06-30-18	38,400	19,200
Subtotal - State of North Dakota		<u>115,464</u>	<u>57,732</u>
Department of Justice Grants			
NARF Civil (2013)	10-01-13 to 09-30-15	22,432	12,226
NARF Criminal (2013)	10-01-13 to 09-30-15	20,683	8,442
NARF Civil (2014)	10-01-13 to 09-30-17	14,023	-
NARF Criminal (2014)	10-01-13 to 09-30-17	23,060	14,910
NARF-Civil (2015)	10-01-15 to 09-30-17	18,013	-
NARF-Criminal (2015)	10-01-15 to 09-30-17	24,214	-
Subtotal - DOJ- NARF		<u>122,425</u>	<u>35,578</u>
OVW-STOP Grant	10-01-14 to 09-30-15	20,375	6,875
OVW-STOP Grant - Reduction	10-01-14 to 09-30-15	(12,916)	-
OVW-STOP Grant (G15.333)	10-01-15 to 09-30-16	20,037	564
OVW-Bakken DV Grant	10-01-14 to 09-30-17	150,000	35,054
Subtotal - DOJ-OVW		<u>177,496</u>	<u>42,493</u>
IRS Grants			
VITA (15VITA0021)	07-01-14 to 06-30-15	15,525	9,449
VITA (16VITA0176)	07-01-14 to 06-30-15	15,525	6,180
Subtotal - IRS		<u>31,050</u>	<u>15,629</u>
HUD Grants			
CDBG -Bismarck	11-01-14 to 04-30-16	7,500	3,885
Subtotal-CDBG		<u>7,500</u>	<u>3,885</u>
State of North Dakota:			
ND Department of Commerce			
ND Homeless Grant (#3650-NDHG14)	07-01-14 to 06-30-15	20,500	11,249
ND Homeless Grant (#3847-NDHG15)	07-01-14 to 06-30-15	14,700	11,074
Subtotal-Commerce		<u>35,200</u>	<u>22,323</u>
Other Grants:			
Surcharge	07-01-13 to 06-30-15	153,396	153,396
Surcharge-New Contract	07-01-15 to 06-30-17	170,844	170,844
United Ways	01-01-15 to 12-31-15	15,560	15,560
Interest on Lawyers Trust Accounts	01-01-15 to 12-31-15	35,000	35,000
2014 Otto Bremer Foundation	12-19-14 to 12-31-16	175,000	-
CJA-Criminal Justice Award	01-01-15 to 12-31-15	21,947	21,947
Bush Prize Grant	12-05-14 to 12-04-17	397,383	-
Subtotal - other grants		<u>969,130</u>	<u>396,746</u>
Total grants and contracts		<u>\$2,613,624</u>	<u>\$ 1,604,745</u>

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2015**

Federal Grantor	CFDA Number	Pass-through/ Grantor's Number	Federal Expenditures Recognized
Legal Services Corporation, Inc:			
Base Grant	9.535007		\$ 459,334
Native American	9.535007		<u>275,674</u>
Total CFDA #9.535007			<u>735,008</u>
Total Legal Services Corporation			<u>735,008</u>
U.S. Department of Justice:			
Tribal Civil Legal Assitastance 2013-AL-BK-K005	16.815		12,226
Tribal Criminal Legal Assistance 2013-AL-BK-K002	16.815		<u>23,352</u>
Total CFDA #16.815			35,578
Passed through N.D. Department of Health STOP Violence Against Women Grant	16.588	Unavailable	7,439
Passed through N.D. Council on Abused Women's Services (NDCAWS) Violence Against Women - Bakken Region Initiative	16.589	2014-WR-AX-0036	<u>35,054</u>
Total U.S. Department of Justice:			<u>78,071</u>
U.S. Department of Treasury:			
Volunteer Income Tax Assistance Program	21.009		<u>15,629</u>
Total U.S. Department of Treasury			<u>15,629</u>
U.S. Department of Housing and Urban Development			
Passed through City of Bismarck Community Development Block Grant	14.218		<u>3,885</u>
Total U.S. Department of Housing and Urban Development			<u>3,885</u>
Total Federal Awards			<u>\$ 832,593</u>

**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, 2015. The information in this Schedule is presented in accordance with the 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). 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, change in net position, or cash flows of Legal Services of North Dakota.

**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 not 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 the Uniform Guidance.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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 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, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2016.

**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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness #2015-001.

## **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*.

## **Entity's Response to Findings**

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 25, 2016





CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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, 2015. 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 the 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*, 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 on 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 each of its major federal program for the year ended December 31, 2015.

### ***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 #2015-002. Our opinion on each 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 a 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, 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 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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

BISMARCK, NORTH DAKOTA

April 25, 2016

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2015**

**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:	<u>Unmodified</u>	
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

<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?	<u>      </u> yes <u>  x  </u> no

**LEGAL SERVICES OF NORTH DAKOTA**  
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS - CONTINUED  
DECEMBER 31, 2015

**Section II-Financial Statement Findings**

**2015-001: 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).

**Condition**

During our audit, material adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

**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.

**Effect**

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

**Recommendation**

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the Organization record all necessary journal entries 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 a repeat finding from fiscal year 2014 audit.

**Section III-Federal Award Findings and Questioned Costs**

**2015-002: Failure to seek LSC Prior Approval of Private Attorney Contract is Excess of \$25,000**

**Criteria**

The Organization is required to obtain prior LSC approval in accordance with 45 CFR 1627.2(b)(1) of contracts with private attorneys in excess of \$25,000.

**Condition**

The Organization failed to obtain prior LSC approval of private attorney contract that resulted in payments in excess of \$25,000.

**Cause**

The contracted attorney is reported to LSC as an employee, however the attorney is reported as a contractor for payroll tax reporting. The contract with the attorney is based on

**LEGAL SERVICES OF NORTH DAKOTA**  
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS - CONTINUED  
DECEMBER 31, 2015

a rate of \$1,425 per 40-hour work week. This rate would require 18 weeks of service to exceed \$25,000. At the time of contract, it was not known how many weeks of service the attorney would be providing to LSND, therefore LSND did not seek prior approval of the contract. For the year ending December 31, 2015, the attorney was paid \$36,905 in excess of the \$25,000 requirement.

**Questioned Cost**

\$36,905

**Effect**

The organization violated 45 CFR 1627.2(b)(1).

**Recommendation**

We recommend that the Organization obtain prior approval of contracts that are in excess of \$25,000 in accordance with 45 CFR 1627.2(b)(1).

**Views of Responsible Officials and Planned Corrective Action**

On a monthly basis, the contract attorney earnings will be reviewed to ensure that the amount is below the \$25,000 limit. LSC approval will be requested if earnings will be in excess of \$25,000.

**Indication of Repeat Finding**

This finding is new for fiscal year 2015.

**LEGAL SERVICES OF NORTH DAKOTA**  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
DECEMBER 31, 2015

**2014-001: Preparation of Financial Statements**

**Criteria**

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements and footnotes.

**Condition**

The Organization does not have an internal control system designed to provide for the preparation of the financial statements and footnotes being audited. As auditors, we were requested to draft the financial statements and the accompanying notes to the financial statements.

**Cause**

This control deficiency could result in a misstatement to the presentation of the financial statements and footnotes in the audit ready financial statements.

**Effect**

Inadequate controls over financial reporting of the Organization's results in more than a remote likelihood that the Organization would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

**Recommendation**

The circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Views of Responsible Officials and Planned Corrective Action**

The Board of Directors had decided to accept the degree of risk associated with the Organization not preparing its own financial statements due to the time and expense necessary to have staff prepare the statements prior to the annual audit.

**Current Status:**

Client prepared the financial statements for the year ended December 31, 2015. The finding was not repeated.

**2014-002: 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).

**Condition**

During our audit, material adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with GAAP.

**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.

**LEGAL SERVICES OF NORTH DAKOTA**  
**SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED**  
**DECEMBER 31, 2015**

**Effect**

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

**Recommendation**

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

**Views of Responsible Officials and Planned Corrective Action**

On a monthly basis, the financial statements will be balanced and all corrections made in a timely manner.

**Current Status:**

The finding is repeated as 2015-001.



**LEGAL SERVICES OF NORTH DAKOTA**  
**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2015**

**2015-001**

Contact Person  
Kim Kramer

Corrective Action Plan

Legal Services of North Dakota is evaluating its internal controls 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.

Completion Date  
Fiscal year 2016

**2015-002**

Contact Person  
Kim Kramer

Corrective Action Plan

On a monthly basis, the contract attorney earnings will be reviewed to ensure that the amount is below the \$25,000 limit. LSC approval will be requested if earnings will be in excess of \$25,000.

Completion Date  
Fiscal year 2016