

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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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, 2017, 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, 2017, 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2018 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 10, 2017. In our opinion, the summarized comparative information presented herein as of

and for the year ended December 31, 2016, 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 16, 2018

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

	2017	(Memorandum Only) 2016
Current assets:		
Cash and cash equivalents	\$ 898,637	\$ 683,766
Client escrow funds	1,408	847
Receivables:		
BCI / JAG	7,047	7,101
CDBG-City of Bismarck	-	2,000
ND Homeless Grant	-	4,454
IRS - VITA	4,929	9,158
Bank of America (BOA) Bar Foundation	742,598	-
ND CAWS	9,412	15,095
NDDHS	47,612	59,046
ND Department of Health - S.T.O.P.	1,346	2,388
NARF	6,192	5,641
SCJD	5,123	3,200
United Way	2,735	-
Prepaid expenses	27,439	50,612
Total current assets	1,754,478	843,308
Property and equipment:		
Furniture and equipment	275,506	268,385
Less accumulated depreciation	213,768	192,632
Net property and equipment	61,738	75,753
Total assets	\$ 1,816,216	\$ 919,061

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 17,821	\$ 16,880
Accrued expenses	48,825	41,712
Accrued vacation payable	73,874	62,280
Client trust deposits	1,408	1,007
Total current liabilities	141,928	121,879
Net assets:		
Unrestricted	56,551	58,538
Temporarily restricted	1,617,737	738,644
Total net assets	1,674,288	797,182
Total liabilities and net assets	\$ 1,816,216	\$ 919,061

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>(Memorandum Only) 2016 Total</u>
Support and revenue:				
Grants	\$ -	\$ 2,791,631	\$ 2,791,631	\$ 1,545,068
Other income	65	2,647	2,712	11,433
Training income	-	5,230	5,230	2,930
Interest income	-	146	146	1,478
Miscellaneous income	-	-	-	252
Donations	-	41,870	41,870	21,675
Net assets released from restrictions:				
Satisfaction of grant restrictions	<u>1,962,431</u>	<u>(1,962,431)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,962,496</u>	<u>879,093</u>	<u>2,841,589</u>	<u>1,582,836</u>
Expenses:				
Program services:				
Senior citizen	685,092	-	685,092	545,190
Indian law	351,573	-	351,573	296,259
General law	470,166	-	470,166	464,152
Domestic violence	62,559	-	62,559	94,200
Housing program	57,569	-	57,569	150,856
Private attorney involvement	60,258	-	60,258	126,982
Human trafficking	40,166	-	40,166	26,964
Medical Legal Partnership	<u>5,164</u>	<u>-</u>	<u>5,164</u>	<u>755</u>
Total program services	<u>1,732,547</u>	<u>-</u>	<u>1,732,547</u>	<u>1,705,358</u>
Supporting services:				
General administration	<u>231,936</u>	<u>-</u>	<u>231,936</u>	<u>228,383</u>
Total expenses	<u>1,964,483</u>	<u>-</u>	<u>1,964,483</u>	<u>1,933,741</u>
Change in net assets	<u>(1,987)</u>	<u>879,093</u>	<u>877,106</u>	<u>(350,905)</u>
Net assets, beginning of year	<u>58,538</u>	<u>738,644</u>	<u>797,182</u>	<u>1,148,087</u>
Net assets - end of year	<u>\$ 56,551</u>	<u>\$ 1,617,737</u>	<u>\$ 1,674,288</u>	<u>\$ 797,182</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services									Support Services	Total Expenses	
	Senior Citizens Program	Indian Law Program	General Law Program	Domestic Violence Program	Housing Program	Private Attorney Involvement	Human Trafficking Program	Medical Legal Partnership	Total	General Administration	2017	(Memorandum Only) 2016
Salaries and wages:												
Lawyers	\$ 242,594	\$ 63,612	\$ 189,769	\$ 43,629	\$ 31,183	\$ 8,177	\$ 25,948	\$ 1,686	\$ 606,598	\$ 5,562	\$ 612,160	\$ 538,692
Nonlawyers	204,392	159,073	129,061	6,396	5,574	13,466	2,042	14	520,018	52,976	572,994	561,711
Employee benefits	128,718	58,293	65,737	9,034	6,601	6,374	6,789	399	281,945	43,057	325,002	300,493
Program travel	12,311	7,465	7,983	736	4,644	1,541	2,499	466	37,645	6,549	44,194	32,130
Conference travel	1,561	1,090	5,612	3	429	4,340	575	-	13,610	9,766	23,376	19,022
Space expense	45,859	27,905	27,551	1,291	179	-	-	-	102,785	37,008	139,793	139,538
Office expenses	24,203	20,160	24,517	675	4,167	-	1,083	639	75,444	30,833	106,277	92,534
Grant payback	-	-	-	-	-	-	-	-	-	-	-	65,398
Equipment rental & maintenance	2,780	1,682	4,884	-	675	-	-	-	10,021	3,680	13,701	10,569
Library maintenance	3,397	1,462	1,959	-	-	-	-	-	6,818	5,924	12,742	14,048
Litigation costs	84	-	25	56	-	-	-	-	165	-	165	750
Small equipment purchases	-	756	3,404	-	3,286	-	-	1,899	9,345	6,102	15,447	9,527
Subcontracted services	11,095	5,919	4,107	-	151	25,648	755	-	47,675	27,737	75,412	125,815
Total expenses before depreciation	676,994	347,417	464,609	61,820	56,889	59,546	39,691	5,103	1,712,069	229,194	1,941,263	1,910,227
Depreciation	8,098	4,156	5,557	739	680	712	475	61	20,478	2,742	23,220	23,514
Total expenses	\$ 685,092	\$ 351,573	\$ 470,166	\$ 62,559	\$ 57,569	\$ 60,258	\$ 40,166	\$ 5,164	\$ 1,732,547	\$ 231,936	\$ 1,964,483	\$ 1,933,741

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	(Memorandum Only) 2016
Cash flows from operating activities:		
Change in net assets	\$ 877,106	\$ (350,905)
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	23,220	23,514
Effects on operating cash flows due to changes in:		
Accounts / pledges receivable	(718,911)	2,919
Prepaid expenses	23,173	(44,142)
Accounts payable	941	(1,819)
Accrued expenses / Accrued vacation payable	18,707	11,285
Net cash provided (used) by operating activities	224,236	(359,148)
Cash flows used by investing activities:		
Additions to property and equipment	(9,365)	(11,980)
Net change in cash and cash equivalents	214,871	(371,128)
Cash and cash equivalents balances:		
Beginning of year	683,766	1,054,894
End of year	\$ 898,637	\$ 683,766

SEE NOTES TO THE FINANCIAL STATEMENTS

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 25% 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.

Grant Revenue Recognition

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

Grants Receivable

Grants receivable are carried at original invoice amount less an estimate made for doubtful receivables based on review of all outstanding amounts on a monthly basis. Grants receivable are written off when deemed uncollectible. Recoveries of grants receivables previously written off are recorded when received. No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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.

Property and Equipment

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

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

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

Donated Services

Donated services are legal services and related office expenses rendered at no charge to the Organization. The value of donated services is based upon estimated fees normally charged by the professional rendering the service. Donated services are recognized both as support and expenses and, therefore, do not affect fund balances. There were no donated services provided in the year ended December 31, 2017.

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.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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

Accrued Vacation

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

Cash and Cash Equivalents

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

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

Memorandum Only – Total Columns

The 2016 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 four years. Total rent expense for the year ended December 31, 2017 was \$134,949.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

Lease Commitments

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

2018	\$ 131,644
2019	33,060
2020	8,265

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, 2017 it amounted to 13.47%. This is based on the \$59,546 of total PAI expenditures from the LSC base grant, Native American grant, Title III, and other funding sources.

NOTE 4 LIMITATION OF FEDERAL CARRYOVER FUNDS

Legal Services Corporation limits the federal LSC fund balance carryover to 10% of the annualized grant award. Any excess carryover must be returned to Legal Services Corporation. This percentage may be increased to 25% if a waiver of the restriction is submitted and approved. The Organization has 3.06% carryover for the year ending December 31, 2017.

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, 2017 was \$26,449. 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, 2017, the Organization had commitments to pay private attorneys up to \$3,767 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, 2017, all deposits were fully insured by FDIC coverage.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017

NOTE 9 SUBCONTRACT PAYMENTS

The Organization had the following subcontract payments for the year ended December 31, 2017:

	LSC Eligible Subcontracts											Total
	Base Grant	Native American	Title III	Surcharge	IOLTA	Bush Foundation	Bank of America	BCI / JAG	SBAND	NDCAWS	NDDOH - S.T.O.P	
Subgrantees:												
Private Attorney Contracts	\$ 88	\$ -	\$ 493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,828	\$ -	\$ 239	\$ 25,648
Miscellaneous Contracts	16,591	4,619	10,473	9,072	1,200	6,065	1,025	640	-	79	-	49,764
Total subcontracted services	\$ 16,679	\$ 4,619	\$ 10,966	\$ 9,072	\$ 1,200	\$ 6,065	\$ 1,025	\$ 640	\$ 24,828	\$ 79	\$ 239	\$ 75,412

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

NOTE 10 NET ASSETS

Temporarily Restricted

Net assets temporarily restricted as of December 31, 2017, 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, Department of Commerce, Bush Foundation, BUSH – 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 temporarily restricted net assets consist of the following as of December 31, 2017:

LSC - Basic Field - Property	\$ 61,738
LSC - Native American	22,033
Surcharge	254,771
BUSH - MLP	202,897
Interest on Lawyers Trust Accounts	16,990
Bush Foundation	137,148
Bank of America	841,285
United Way	7,503
SBAND	17,559
Donations	55,813
Total	<u>\$ 1,617,737</u>

The net assets released from restrictions by expenditures of the funds for the purpose for which they were received based upon restrictions imposed by the donor was \$1,962,432.

The Organization had no permanently restricted net assets as of December 31, 2017.

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

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, 2017, 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 FUTURE PRONOUNCEMENTS

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

During 2014, the FASB issued a new standard related to revenue recognition. ASU2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-01 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 Company for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities

This ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU is effective for annual financial statements issued for

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017

fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

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

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

NOTE 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through April 16, 2018, 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, 2017

	LSC Base Grant			LSC Native American			LSC Property	Title III			ND Homeless Grant
	PAI	Non-PAI	Total Base Grant	PAI	Non-PAI	Total Native American		PAI	Non-PAI	Total Title III	
Support and revenue:											
Grants and contracts	\$ 25,243	\$ 416,976	\$ 442,219	\$ 3,966	\$ 273,031	\$ 276,997	\$ -	\$ 2,819	\$ 358,462	\$ 361,281	\$ 3,016
Other income	-	701	701	-	260	260	-	-	-	-	-
Training revenue	-	3,150	3,150	-	-	-	-	-	-	-	-
Interest income	-	146	146	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	415	415	-
Total support and revenue	25,243	420,973	446,216	3,966	273,291	277,257	-	2,819	358,877	361,696	3,016
Expenses:											
Salaries and wages:											
Lawyers	6,506	108,918	115,424	351	55,083	55,434	-	683	116,598	117,281	1,712
Nonlawyers	9,062	122,153	131,215	2,398	109,441	111,839	-	1,104	110,578	111,682	726
Employee benefits	4,544	71,581	76,125	750	46,686	47,436	-	539	65,223	65,762	578
Program travel	1,051	9,799	10,850	192	3,297	3,489	-	-	6,380	6,380	-
Conference travel	3,992	7,864	11,856	275	360	635	-	-	1,375	1,375	-
Space expense	-	42,377	42,377	-	26,580	26,580	-	-	29,118	29,118	-
Office expenses	-	28,140	28,140	-	14,774	14,774	-	-	15,054	15,054	-
Equipment rental & maintenance	-	7,221	7,221	-	1,558	1,558	-	-	1,614	1,614	-
Library maintenance	-	5,709	5,709	-	1,462	1,462	-	-	2,464	2,464	-
Litigation costs	-	-	-	-	-	-	-	-	-	-	-
Subcontracted services	88	16,591	16,679	-	4,619	4,619	-	493	10,473	10,966	-
Depreciation	-	-	-	-	-	-	23,220	-	-	-	-
Equipment	-	620	620	-	756	756	-	-	-	-	-
Total expenses	25,243	420,973	446,216	3,966	264,616	268,582	23,220	2,819	358,877	361,696	3,016
Change in net assets	-	-	-	-	8,675	8,675	(23,220)	-	-	-	-
Net assets, beginning of year	-	-	-	-	13,358	13,358	75,753	-	-	-	-
Other changes in net assets:											
Acquisition of property	-	-	-	-	-	-	9,205	-	-	-	-
Net assets - end of year	\$ -	\$ -	\$ -	\$ -	\$ 22,033	\$ 22,033	\$ 61,738	\$ -	\$ -	\$ -	\$ -

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Surcharge			Bush - MLP	Fair Housing of the Dakotas	IOLTA	Bush Foundation	Bank of America			BCI / JAG
	PAI	Non-PAI	Total Surcharge					PAI	Non-PAI	Total Bank of America	
Support and revenue:											
Grants and contracts	\$ 88	\$ 311,326	\$ 311,414	\$ 208,000	\$ -	\$ 60,000	\$ -	\$ 370	\$ 907,761	\$ 908,131	\$ 35,768
Other income	-	28	28	-	-	-	21	-	-	-	-
Training revenue	-	-	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-	-	-
Total support and revenue	88	311,354	311,442	208,000	-	60,000	21	370	907,761	908,131	35,768
Expenses:											
Salaries and wages:											
Lawyers	74	121,199	121,273	1,686	559	24,147	5,289	-	36,940	36,940	23,792
Nonlawyers	-	131,130	131,130	14	1,252	-	27,529	-	4,892	4,892	2,038
Employee benefits	14	69,325	69,339	399	346	6,882	8,416	-	7,096	7,096	6,448
Program travel	-	7,035	7,035	466	260	-	1,508	297	5,862	6,159	2,276
Conference travel	-	2,448	2,448	-	429	-	5,986	73	-	73	574
Space expense	-	34,161	34,161	-	-	7,378	-	-	-	-	-
Office expenses	-	25,565	25,565	639	371	3,403	10,968	-	4,420	4,420	-
Equipment rental & maintenance	-	2,633	2,633	-	-	-	-	-	675	675	-
Library maintenance	-	3,014	3,014	-	-	-	-	-	-	-	-
Litigation costs	-	84	84	-	-	-	-	-	-	-	-
Subcontracted services	-	9,072	9,072	-	-	1,200	6,065	-	1,025	1,025	640
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	1,899	-	-	6,606	-	5,566	5,566	-
Total expenses	88	405,666	405,754	5,103	3,217	43,010	72,367	370	66,476	66,846	35,768
Change in net assets	-	(94,312)	(94,312)	202,897	(3,217)	16,990	(72,346)	-	841,285	841,285	-
Net assets, beginning of year	-	349,083	349,083	-	3,217	-	218,699	-	-	-	-
Other changes in net assets:											
Acquisition of property	-	-	-	-	-	-	(9,205)	-	-	-	-
Net assets - end of year	\$ -	\$ 254,771	\$ 254,771	\$ 202,897	\$ -	\$ 16,990	\$ 137,148	\$ -	\$ 841,285	\$ 841,285	\$ -

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	IRS-VITA	United Way	John D. Kelly Memorial Fund	NARF - Criminal	SBAND-PAI	SCJD			NDCAWS		
						PAI	Non-PAI	Total SCJD	PAI	Non-PAI	Total NDCAWS
Support and revenue:											
Grants and contracts	\$ 13,353	\$ 13,158	\$ -	\$ 6,314	\$ -	\$ 55	\$ 64,468	\$ 64,523	\$ 671	\$ 45,147	\$ 45,818
Other income	-	-	1,637	-	-	-	-	-	-	-	-
Training revenue	-	-	-	-	-	-	-	-	-	2,080	2,080
Interest income	-	-	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	31,500	-	-	-	-	-	-
Total support and revenue	13,353	13,158	1,637	6,314	31,500	55	64,468	64,523	671	47,227	47,898
Expenses:											
Salaries and wages:											
Lawyers	-	14,224	-	76	136	-	41,538	41,538	415	36,041	36,456
Nonlawyers	10,426	3,643	1,377	4,643	703	36	10,196	10,232	159	3,806	3,965
Employee benefits	2,456	5,295	260	1,082	410	19	12,031	12,050	97	6,635	6,732
Program travel	-	2,868	-	513	-	-	585	585	-	610	610
Conference travel	-	-	-	-	-	-	-	-	-	-	-
Space expense	-	-	-	-	-	-	-	-	-	-	-
Office expenses	471	165	-	-	-	-	-	-	-	-	-
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	-	-
Library maintenance	-	-	-	-	-	-	93	93	-	-	-
Litigation costs	-	-	-	-	-	-	25	25	-	56	56
Subcontracted services	-	-	-	-	24,828	-	-	-	-	79	79
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-	-
Total expenses	13,353	26,195	1,637	6,314	26,077	55	64,468	64,523	671	47,227	47,898
Change in net assets	-	(13,037)	-	-	5,423	-	-	-	-	-	-
Net assets, beginning of year	-	20,540	-	-	12,136	-	-	-	-	-	-
Other changes in net assets:											
Acquisition of property	-	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ -	\$ 7,503	\$ -	\$ -	\$ 17,559	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FUNCTIONAL ACTIVITIES OF TEMPORARILY RESTRICTED NET ASSETS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

	Donations			CDBG - City of Fargo	NDDOH - S.T.O.P			Teen Drug Court	NARF Civil	Totals
	PAI	Non-PAI	Total Donations		PAI	Non-PAI	Total NDDOH - S.T.O.P			
Support and revenue:										
Grants and contracts	\$ -	\$ -	\$ -	\$ 5,000	\$ 257	\$ 11,736	\$ 11,993	\$ 7,500	\$ 17,146	\$ 2,791,631
Other income	-	-	-	-	-	-	-	-	-	2,647
Training revenue	-	-	-	-	-	-	-	-	-	5,230
Interest income	-	-	-	-	-	-	-	-	-	146
Donations	-	9,955	9,955	-	-	-	-	-	-	41,870
Total support and revenue	-	9,955	9,955	5,000	257	11,736	11,993	7,500	17,146	2,841,524
Expenses:										
Salaries and wages:										
Lawyers	-	-	-	2,975	11	6,990	7,001	4,777	1,299	612,019
Nonlawyers	-	-	-	806	4	2,090	2,094	1,126	11,662	572,994
Employee benefits	-	-	-	978	3	2,157	2,160	1,585	3,131	324,966
Program travel	-	-	-	-	-	129	129	12	1,054	44,194
Conference travel	-	-	-	-	-	-	-	-	-	23,376
Space expense	-	-	-	179	-	-	-	-	-	139,793
Office expenses	-	-	-	62	-	370	370	-	-	104,402
Equipment rental & maintenance	-	-	-	-	-	-	-	-	-	13,701
Library maintenance	-	-	-	-	-	-	-	-	-	12,742
Litigation costs	-	-	-	-	-	-	-	-	-	165
Subcontracted services	-	-	-	-	239	-	239	-	-	75,412
Depreciation	-	-	-	-	-	-	-	-	-	23,220
Equipment	-	-	-	-	-	-	-	-	-	15,447
Total expenses	-	-	-	5,000	257	11,736	11,993	7,500	17,146	1,962,431
Change in net assets	-	9,955	9,955	-	-	-	-	-	-	879,093
Net assets, beginning of year	1,333	44,525	45,858	-	-	-	-	-	-	738,644
Other changes in net assets:										
Acquisition of property	-	-	-	-	-	-	-	-	-	-
Net assets - end of year	\$ 1,333	\$ 54,480	\$ 55,813	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,617,737

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY OF FUNDING SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017

Grant Number	Period	Total Grant Amount	Year Ended December 31, 2017
Legal Services Corporation			
2015001	01-01-17 to 12-31-17	\$ 442,219	\$ 442,219
2015001	01-01-17 to 12-31-17	276,997	276,997
Subtotal-Legal Services Corporation		<u>719,216</u>	<u>719,216</u>
North Dakota Department of Human Services			
Title III - 190-10374	07-01-16 to 06-30-17	250,000	104,518
Title III - 190-10374 (Amendment)	09-30-16 to 06-30-17	88,619	88,619
Title III - 190-10703	07-01-17 to 06-30-18	250,000	168,144
Title III - 190-10703 (Amendment)	07-01-17 to 06-30-18	56,625	-
Subtotal - ND DHS		<u>645,244</u>	<u>361,281</u>
State of North Dakota:			
State Judiciary Juvenile Drug Court	07-01-15 to 06-30-17	7,500	3,750
State Judiciary Juvenile Drug Court	07-01-17 to 06-30-17	7,500	3,750
Comm. On Legal Counsel for Indigents	07-01-15 to 06-30-17	38,400	19,200
Comm. On Legal Counsel for Indigents	02-01-17 to 06-30-17	7,500	7,500
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-19	50,400	28,823
Comm. On Legal Counsel for Indigents	07-01-17 to 06-30-19	18,000	9,000
Subtotal - State of North Dakota		<u>129,300</u>	<u>72,023</u>
Department of Justice Grants			
Native American Right Fund (NARF)			
2013-AL-BX-0002-Criminal(2014 Supplement)	10-01-13 to 09-30-17	23,060	3,603
2015-AL-BX-0001-Civil	10-01-15 to 09-30-17	18,013	17,147
2015-AL-BX-0001 Civil Amendment	10-01-15 to 09-30-17	6,671	-
2015-AL-BX-0002-Criminal	10-01-15 to 09-30-17	24,214	2,710
2015-AL-BX-0001-Civil (2016 Supplement)	10-01-16 to 09-30-17	18,013	-
2015-AL-BX-0002-Criminal (2016 Supplement)	10-01-16 to 09-30-17	24,214	-
Subtotal - DOJ- NARF		<u>114,185</u>	<u>23,460</u>
Office of Violence Against Women(OVW)			
OVW-STOP Grant (G15.919)	10-01-16 to 09-30-17	24,789	10,647
OVW-STOP Grant - Reduction	10-01-16 to 09-30-17	(11,753)	-
OVW-STOP Grant (G17.488)	10-01-17 to 09-30-18	11,536	1,346
OVW-Bakken DV Grant	10-01-14 to 09-30-17	150,000	39,017
OVW-Bakken DV Grant (amendment)	10-01-17 to 03-31-18	30,000	6,801
Subtotal - DOJ-OVW		<u>204,572</u>	<u>57,811</u>
IRS-Volunteer Income Tax Assistance Grants (VITA)			
17VITA0184 (Year One)	08-01-16 to 07-31-18	20,675	11,517
17VITA0184 (year Two)	08-01-17 to 07-31-18	20,675	1,836
Subtotal - IRS		<u>41,350</u>	<u>13,353</u>
U.S. Department of Housing and Urban Development			
CDBG -City of Fargo	02-01-17 to 01-31-18	5,000	5,000
Subtotal-CDBG		<u>5,000</u>	<u>5,000</u>
State of North Dakota:			
ND Department of Commerce - Homeless Grant			
#3975-NDHG16	07-01-16 to 06-30-17	24,120	3,016
#3975-NDHG16 - Reduction	07-01-16 to 06-30-17	(12,378)	-
Subtotal-Commerce		<u>11,742</u>	<u>3,016</u>
Other Grants:			
Surcharge	07-01-15 to 06-30-17	146,538	146,538
Surcharge-New Contract	07-01-17 to 06-30-19	164,876	164,876
United Ways	01-01-17 to 12-31-17	13,158	13,158
Interest on Lawyers Trust Accounts	01-01-17 to 12-31-17	60,000	60,000
Bush Prize Grant	12-05-14 to 12-31-17	397,383	-
ND Dept of Trust Lands/Mountrail County (Amended)	02-01-17 to 06-30-19	79,398	33,165
ND Attorney General/Mountrail County	02-01-17 to 06-30-17	26,466	2,603
Bank of America (BOA) Bar Foundation	04-20-17 to 04-20-20	908,131	908,131
Bush-Medical Legal Partnership (MLP)	08-01-17 to 08-31-20	208,000	208,000
Subtotal - other grants		<u>2,003,950</u>	<u>1,536,471</u>
Total grants and contracts		<u>\$ 3,874,559</u>	<u>\$ 2,791,631</u>

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor	CFDA Number	Pass-through/ Grantor's Number	Federal Expenditures Recognized
Legal Services Corporation, Inc:			
Base Grant	9.535007		\$ 446,217
Native American	9.535007		268,582
Total Legal Services Corporation			<u>714,799</u>
U.S. Department of Justice:			
Passed through Native American Rights Fund			
Tribal Criminal Legal Assistance	16.815	2013-AL-BK-0002	3,603
Tribal Civil Legal Assistance	16.815	2015-AL-BX 0001	17,146
Tribal Criminal Legal Assistance	16.815	2015-AL-BX 0002	2,710
Subtotal - Native American Rights Fund			<u>23,459</u>
Passed through N.D. Department of Health			
STOP Violence Against Women Grant	16.588	G15.919	10,648
STOP Violence Against Women Grant	16.588	G15.488	1,346
Subtotal - N.D. Department of Health			<u>11,994</u>
Passed through CAWS North Dakota			
Violence Against Women - Bakken Region Initiative	16.589	2014-WR-AX-0036	45,818
Total U.S. Department of Justice:			<u>81,271</u>
U.S. Department of Treasury:			
Volunteer Income Tax Assistance Program (VITA)	21.009	17VITA0184	13,353
Total U.S. Department of Treasury			<u>13,353</u>
Total Federal Awards			<u>\$ 809,423</u>

LEGAL SERVICES OF NORTH DAKOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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). The amounts reported on the schedule have been reconciled to and are in agreement with amounts recorded in the accounting records from which the financial statements have been reported.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**INDEPENDENT AUDITORS REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Legal Services of North Dakota (a nonprofit organization) which comprise the statement of financial position as of December 31, 2017, 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 16, 2018.

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

April 16, 2018

**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, 2017. 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). Those standards and the Uniform Guidance 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, 2017.

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, 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. Accordingly, this report is not suitable for any other purpose.

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

April 16, 2018

LEGAL SERVICES OF NORTH DAKOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

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:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes	<u> x </u> no	
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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9.535007	Legal Services Corporation, Inc. Base and Native American Grant
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Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
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Auditee qualified as a low-risk auditee?	_____ yes	<u> x </u> no	
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Section II-Financial Statement Findings

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

Section III-Federal Award Findings and Questioned Costs

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

LEGAL SERVICES OF NORTH DAKOTA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2017

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