

## **North Penn Legal Services, Inc.**

### Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018  
with Independent Auditor's Reports

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# NORTH PENN LEGAL SERVICES, INC.

YEARS ENDED JUNE 30, 2019 AND 2018

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## Independent Auditor's Report

**Board of Directors  
North Penn Legal  
Services, Inc.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of North Penn Legal Services, Inc. (NPLS), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 audits 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 NPLS as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note 2 to the financial statements, NPLS adopted Accounting Standards Update 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* which requires not-for-profit entities to use the placed-in-service approach for contributions related to long-lived assets, changes how a nonprofit organization classifies net assets, and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, amount other requirements. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 through 20 is presented for purposes of additional analysis and is 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is 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 October 8, 2019, on our consideration of NPLS'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 NPLS'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 NPLS's internal control over financial reporting and compliance.

*Mahe Duessel*

Harrisburg, Pennsylvania  
October 8, 2019

# NORTH PENN LEGAL SERVICES, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,716,466	\$ 1,685,815
Client escrow funds	3,634	1,931
Accounts receivable:		
PLAN	135,619	120,538
Other	260,788	185,846
Prepaid expenses	217,090	138,889
Property and equipment, net	138,561	57,077
<b>Total Assets</b>	<b><u>\$ 2,472,158</u></b>	<b><u>\$ 2,190,096</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 223,769	\$ 194,193
Accrued compensated absences	115,031	99,523
Client trust deposits	3,634	1,931
<b>Total Liabilities</b>	<b><u>342,434</u></b>	<b><u>295,647</u></b>
Net Assets:		
Without donor restrictions	1,449,224	1,309,633
With donor restrictions	680,500	584,816
<b>Total Net Assets</b>	<b><u>2,129,724</u></b>	<b><u>1,894,449</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 2,472,158</u></b>	<b><u>\$ 2,190,096</u></b>

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

# NORTH PENN LEGAL SERVICES, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2019
<b>Revenues and Other Support:</b>			
Contracts and grants	\$ 6,499,013	\$ 102,043	\$ 6,601,056
Contributions:			
In-kind	152,865	-	152,865
Other	68,692	-	68,692
Interest income	4,423	-	4,423
Other income	8,542	-	8,542
Net assets released from restrictions	6,359	(6,359)	-
Total revenues and other support	6,739,894	95,684	6,835,578
<b>Expenses:</b>			
Program services	5,838,967	-	5,838,967
Management and general	748,510	-	748,510
Fundraising	12,826	-	12,826
Total expenses	6,600,303	-	6,600,303
<b>Change in Net Assets</b>	139,591	95,684	235,275
<b>Net Assets:</b>			
Beginning of year	1,309,633	584,816	1,894,449
End of year	\$ 1,449,224	\$ 680,500	\$ 2,129,724

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



# NORTH PENN LEGAL SERVICES, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2018
<b>Revenues and Other Support:</b>			
Contracts and grants	\$ 5,879,521	\$ 123,297	\$ 6,002,818
Contributions:			
In-kind	101,715	-	101,715
Other	73,884	-	73,884
Interest income	923	-	923
Other income	20,033	-	20,033
Net assets released from restrictions	1,987	(1,987)	-
Total revenues and other support	6,078,063	121,310	6,199,373
<b>Expenses:</b>			
Program services	5,362,556	-	5,362,556
Management and general	663,808	-	663,808
Fundraising	10,431	-	10,431
Total expenses	6,036,795	-	6,036,795
<b>Change in Net Assets</b>	41,268	121,310	162,578
<b>Net Assets:</b>			
Beginning of year	1,268,365	463,506	1,731,871
End of year	\$ 1,309,633	\$ 584,816	\$ 1,894,449

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

# NORTH PENN LEGAL SERVICES, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2019 AND 2018

	Program Services	Management and General	Fund- raising	Total 2019
Salaries	\$ 3,392,158	\$ 410,954	\$ 3,604	\$ 3,806,716
Fringe benefits	1,338,360	173,009	1,678	1,513,047
Consultants and contractors	175,497	40,274	129	215,900
Travel	51,087	25,359	87	76,533
Space costs	369,136	46,987	475	416,598
Consumable supplies	63,907	6,439	79	70,425
Equipment repairs and maintenance	74,868	7,544	89	82,501
Other	346,168	35,148	6,685	388,001
Depreciation	27,786	2,796	-	30,582
<b>Total expenses</b>	<b>\$ 5,838,967</b>	<b>\$ 748,510</b>	<b>\$ 12,826</b>	<b>\$ 6,600,303</b>

  

	Program Services	Management and General	Fund- raising	Total 2018
Salaries	\$ 3,124,006	\$ 353,414	\$ 1,591	\$ 3,479,011
Fringe benefits	1,214,956	142,739	700	1,358,395
Consultants and contractors	115,336	13,003	35	128,374
Travel	45,752	17,231	32	63,015
Space costs	345,289	40,379	202	385,870
Consumable supplies	55,497	54,833	58	110,388
Equipment repairs and maintenance	87,294	10,796	52	98,142
Other	355,672	25,970	7,761	389,403
Depreciation	18,754	5,443	-	24,197
<b>Total expenses</b>	<b>\$ 5,362,556</b>	<b>\$ 663,808</b>	<b>\$ 10,431</b>	<b>\$ 6,036,795</b>

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

# NORTH PENN LEGAL SERVICES, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 235,275	\$ 162,578
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	30,582	24,197
(Increase) decrease in:		
Accounts receivable	(90,023)	101,818
Prepaid expenses	(78,201)	(24,875)
Increase (decrease) in:		
Accounts payable and accrued expenses	29,576	114,747
Accrued compensated absences	15,508	(10,561)
Net cash and cash equivalents provided by operating activities	<u>142,717</u>	<u>367,904</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of equipment	<u>(112,066)</u>	<u>(15,831)</u>
Net cash and cash equivalents used in investing activities	<u>(112,066)</u>	<u>(15,831)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	30,651	352,073
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>1,685,815</u>	<u>1,333,742</u>
End of year	<u>\$ 1,716,466</u>	<u>\$ 1,685,815</u>

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

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### 1. Organization

#### Reporting Entity

North Penn Legal Services, Inc. (NPLS) is a nonprofit organization that provides civil legal representation for the poor and disadvantaged in Bradford, Carbon, Clinton, Columbia, Lackawanna, Lehigh, Luzerne, Lycoming, Monroe, Montour, Northampton, Northumberland, Pike, Snyder, Sullivan, Susquehanna, Tioga, Union, Wayne, and Wyoming counties. NPLS's central office is located in Pittston, Pennsylvania. NPLS is part of a statewide network of legal service providers servicing all of Pennsylvania's 67 counties. With its reliance on discretionary government funding, the philanthropic community, and the volunteer services of attorneys and others, it represents its targeted clientele in matters such as protection from abuse, follow-up of governmental benefits including Social Security and food stamps, housing assistance, issues related to the youth and the aged, and other emerging civil matters.

NPLS is funded on a year-to-year basis through a contract with Pennsylvania Legal Aid Network (PLAN), formerly Pennsylvania Legal Services. Funding for the contract is provided by the Commonwealth of Pennsylvania with Commonwealth and Federal Title XX funds, Pennsylvania Interest on Lawyers' Trust Account Program (IOLTA) funds, Access to Justice Act funds, and PA Department of Human Services (DHS) funds. Additional funding is obtained from Legal Services Corporation (LSC), a nonprofit corporation organized by the U.S. Congress to administer a nationwide legal assistance program.

### 2. Summary of Significant Accounting Policies

#### Basis of Accounting

NPLS reports on the accrual basis of accounting and, accordingly, has reflected all significant receivables, payables, and other liabilities as prescribed by accounting principles generally accepted in the United States of America (GAAP). The financial statements and notes also incorporate applicable provisions of the LSC's "*Accounting Guide for LSC Recipients*," consistent with accounting principles generally accepted in the United States of America.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### Basis of Presentation

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of NPLS and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NPLS and/or the passage of time or that they be maintained permanently by NPLS.

### Cash and Cash Equivalents

All liquid investments with a maturity of three months or less when purchased are considered cash equivalents for the purpose of cash flows.

### Accounts Receivable

Contracts and grants receivable, which include PLAN receivables, are for expenses incurred prior to the fiscal year-end that have not yet been received from the funding agency. No allowance for uncollectible accounts receivable is deemed necessary.

### Promises to Give

Unconditional promises to give are recognized as revenue and assets in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their net realizable value.

### Prepaid Expenses

Cash disbursements that benefit a future period are recorded as prepaid expenses.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### Property and Equipment

Property and equipment, consisting of leasehold improvements, office furniture, and equipment, and law library items (consisting of library books and multiple volume sets), have been recorded at cost. Expenditures and betterments that extend the lives of the applicable assets are capitalized, while maintenance and repairs are expensed when incurred. Property and equipment is capitalized with an initial, individual cost or in the aggregate of more than \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years for office furniture and equipment, and seven to fifteen years for leasehold improvements.

### Impairment

NPLS reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred, based on the expected cash flows, a loss is recognized in the statements of activities.

### Accrued Compensated Absences

Employees are permitted to carry over a pre-determined maximum number of unused vacation days from one fiscal year to the next. Employees receive payment for their unused vacation, up to that maximum, at termination. NPLS has established a liability for unused vacation based on the aggregate maximum payable per employee.

### Contracts, Grants, and Contributions

NPLS is required to record contracts, grants, and contributions received as without donor restrictions or with donor restrictions. This requirement is dependent on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### In-Kind Contributions

In-kind contributions are recorded at fair market value at the time of receipt. These contributions are recognized as both support and expenses in the statement of activities. Only those contributed services that create or enhance nonfinancial assets, require skills, and are provided by such individuals possessing those skills and would typically need to be purchased, if not provided by donation, are so recognized in the financial statements. In-kind contributed services totaled \$152,865 and \$101,715 for the years ended June 30, 2019 and 2018, respectively, and consisted of pro bono legal services. The average rate used to determine the value of pro bono legal services provided by attorneys was \$150 per hour. Approximately, 1,019 and 678 hours of pro bono legal services were provided by attorneys during the years ended June 30, 2019 and 2018, respectively.

### Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis on the statements of activities. Accordingly, certain costs have been allocated among programs and support services.

NPLS allocates expenses among PLAN, LSC, and other funding sources. The expense allocation among funding sources is made based on annualized budgetary revenue relationships, specific identification, and time expended on cases.

### Income Taxes

NPLS is a not-for-profit corporation and is exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Service Code, as well as from Pennsylvania State corporate taxes. However, NPLS is subject to federal income tax on certain employee benefits. NPLS is not considered a private foundation for federal income tax purposes. NPLS annually files a Form 990 and Form 990-T.

### Management's 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.

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### Adoption of Accounting Standard

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were adopted during the year ended June 30, 2019:

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. As a result of adoption, the unrestricted net assets as of July 1, 2017 were transferred to net assets without donor restriction. In addition, the temporarily restricted net assets as of July 1, 2017 were transferred to net assets with donor restrictions.

### Pending Standards Update

ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* is effective for NPLS’s financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, *“Leases (Topic 842),”* is effective for NPLS’s financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Early application of the amendments in the ASU is allowed.

ASU 2018-08, *“Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,”* is effective for NPLS’s financial statements for the year ending June 30, 2020. This amendment clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendment clarifies how an entity determines whether a resource provider is participating in an exchange transaction. Early application of the amendments in the ASU is allowed.

Management has not yet determined the impact of these amendments on NPLS’s financial statements.

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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### Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

### Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

### **3. Client Escrow Funds**

Cash advances received from clients are maintained in escrow accounts, and represent anticipated court costs that are the direct responsibility of the clients.

### **4. Property and Equipment**

Property and equipment, together with annual depreciation, are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 482,331	\$ 463,169
Leasehold improvements	17,887	17,887
Construction in progress	<u>92,904</u>	<u>-</u>
	593,122	481,056
Accumulated depreciation	<u>(454,561)</u>	<u>(423,979)</u>
Property and equipment, net	<u>\$ 138,561</u>	<u>\$ 57,077</u>

Depreciation expense totaled \$30,582 and \$24,197 for the years ended June 30, 2019 and 2018, respectively.

### **5. Line of Credit**

NPLS has a secured line of credit agreement with Peoples Security Bank & Trust with a credit limit of \$500,000. The line is collateralized by NPLS's assets and is renewable

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

annually. The note requires monthly interest payments at the Wall Street Journal Prime Rate. The outstanding balances on this line of credit were zero as of June 30, 2019 and 2018.

### 6. Net Assets and Transfers Between Net Assets

Net assets as of June 30, 2019 consist of the following:

	Without Donor Restrictions	With Donor Restrictions
IOLTA carryover	\$ -	\$ 30,932
Access to Justice Act carryover	-	219,688
LSC - fiscal year carryover	-	231,484
LSC - advance funding	-	183,840
Property and equipment - other	138,561	-
Other	1,310,663	14,556
Total	<u>\$ 1,449,224</u>	<u>\$ 680,500</u>

Net assets as of June 30, 2018 consist of the following:

	Without Donor Restrictions	With Donor Restrictions
IOLTA carryover	\$ -	\$ 15,566
Access to Justice Act carryover	-	163,323
LSC - fiscal year carryover	-	244,537
LSC - advance funding	-	155,031
Property and equipment - other	57,077	-
Other	1,252,556	6,359
Total	<u>\$ 1,309,633</u>	<u>\$ 584,816</u>

LSC permits up to 10% of current funding to be carried over to the next fiscal year. As of June 30, 2019 and 2018, NPLS had LSC carryover totaling \$231,484 and \$244,537 (11.4% and 12.5% of applicable year funding), respectively. For the year ended June 30, 2019, a carryover waiver will be requested from LSC. For the year ended June 30, 2018, a carryover waiver was approved by LSC.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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IOLTA, Access to Justice Act, and Bank of America funding also permit a 10% carryover of current funding to the next fiscal year and require recipients to record the carryover funds as net assets with donor restrictions. The recipient may request a written waiver to carry over up to 25% of these funds. A waiver was granted to NPLS to carryover up to 17% of IOLTA funding for the year ended June 30, 2019. A waiver was granted to NPLS to carryover up to 17% of the current Access to Justice Act funding for the year ended June 30, 2019. No written waiver was required for Bank of America funding for the year ended June 30, 2019. No written waiver was required for the year ended June 30, 2018.

### 7. Operating Leases

NPLS presently leases office facilities at various locations in Northeastern Pennsylvania. The leases provide for annual fixed rental payments, plus certain real estate and utility expenses. Certain leases extend for a period longer than one year; however, certain leases are cancelable without penalty in the event that NPLS is unable to secure sufficient funding to finance its programs. Lease expense for the years ended June 30, 2019 and 2018 was \$354,481 and \$332,490, respectively.

The following is a schedule of future minimum lease payments under non-cancelable leases as of June 30, 2019:

Year Ending June 30,	Amount
2020	\$ 226,471
2021	240,297
2022	245,209
2023	248,729
2024	151,000
2025-2026	158,493
	<u>\$ 1,270,199</u>

### 8. Funding

The receivable from PLAN represents final payment due to NPLS for the grant contract ended June 30, 2019.

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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LSC requires programs receiving funding to implement procedures to dedicate a minimum predetermined portion (12.5%) of its LSC and/or non-LSC funding for private attorney involvement (PAI). This requirement was intended to increase private attorney participation in service delivery and lead to increased communication and cooperation with state and local bar associations. The basic field grant received from LSC for the period July 1, 2018 through June 30, 2019 totaled \$2,038,840. NPLS expended \$197,709 of its LSC funding for PAI during the year ended June 30, 2019. This amount constituted 9.7% of the amounts received from LSC under its basic field grant for that period. NPLS obtained a waiver from LSC for the 12.5% PAI minimum but did not meet the reduced requirement. In accordance with LSC requirements, the shortfall of \$6,381 will be added to NPLS's PAI requirement for the year ended June 30, 2020.

In accordance with the normal policies of LSC, NPLS may retain unexpended funds for use in future periods, provided that expenses incurred are in compliance with the specified terms of the grant. LSC may, at its discretion, require reimbursement for expenses or return of funds, or both, as a result of noncompliance by NPLS with its terms. In addition, if NPLS terminates its legal assistance activities, all unexpended funds are to be returned to the funding source. LSC also retains a reversionary interest in property, as well as the right to determine the ultimate use of any proceeds from the sale of assets purchased with its funding.

### **9. Retirement Plan**

NPLS has a 401(k) retirement plan available to eligible employees. For the years ended June 30, 2019 and 2018, NPLS adopted an employer contribution percentage of 5.5% of gross wages, which were contributed to the plan. Employees may make additional contributions to the plan on a voluntary basis. Employer contributions to the plan totaled \$179,164 and \$183,176 for the years ended June 30, 2019 and 2018, respectively.

### **10. Concentration of Credit Risk**

#### Financial Instruments

Financial instruments, which potentially subject NPLS to concentration of credit risk, consist principally of temporary cash investments. NPLS invests its temporary cash with several financial institutions. The cash balances are secured by the Federal Deposit Insurance

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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Corporation (FDIC) up to \$250,000 per financial institution. The balances, at times, may exceed federally insured limits.

### Sources of Revenue

A significant amount of funding is received for continued operations of NPLS from PLAN and LSC. Grants received are subject to audit and adjustment by grantor agencies, principally LSC and PLAN. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although NPLS expects such amounts, if any, to be immaterial.

PLAN and LSC funding is dependent on the budgeting processes of the Commonwealth of Pennsylvania and the federal government. The LSC grant was approximately 30.5% of total revenue and other support for the year ended June 30, 2019. The PLAN grant (including IOLTA funding) was approximately 47.5% of total revenue and other support for the year ended June 30, 2019. Total revenue and other support used in these calculations do not include in-kind contributions.

## **11. Liquidity and Availability**

Substantial support for NPLS' program activities is realized through a grant from LSC, a contract with PLAN, and contracts with local Area Agencies on Aging. NPLS actively pursues additional grants from regional and state funding sources.

NPLS primarily manages its liquid resources by meeting compliance requirements and case goals of funders to ensure the timely receipt of restricted contributions that finance the operating costs of supported programs. Detailed analyses and budgets are prepared to evaluate the financial viability of NPLS's various programs, in addition to planning and controlling the costs of such activities.

A secured line of credit (see Note 5) is also maintained by NPLS to assist in supplementing cash needs.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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The following reflects NPLS' financial assets as of June 30, 2019, expected to be available within one year to meet operating cash needs:

Cash and cash equivalents	\$ 1,716,466
Accounts receivable	<u>396,407</u>
	<u>\$ 2,112,873</u>

All restrictions on net assets with donor restrictions as of June 30, 2019 are expected to be met within one year.

## **SUPPLEMENTARY INFORMATION**

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PRIMARY FUNDING SOURCES

YEAR ENDED JUNE 30, 2019

(With Comparative Totals for Year Ended June 30, 2018)

	Legal Services Corporation						Totals	
	General Program	PAI	Prior Year Excess Carryover *	Total	Pennsylvania Legal Aid Network	Other	2019	2018
	<b>Revenues and Other Support:</b>							
Contracts and grants	\$ 1,841,131	\$ 197,709	\$ -	\$ 2,038,840	\$ 3,171,360	\$ 1,390,856	\$ 6,601,056	\$ 6,002,818
In-kind contributions	-	-	-	-	-	152,865	152,865	101,715
Other contributions	-	-	-	-	-	68,692	68,692	73,884
Interest income	-	-	-	-	4,422	1	4,423	923
Other income	-	-	-	-	-	8,542	8,542	20,033
Total revenues and other support	<u>1,841,131</u>	<u>197,709</u>	<u>-</u>	<u>2,038,840</u>	<u>3,175,782</u>	<u>1,620,956</u>	<u>6,835,578</u>	<u>6,199,373</u>
<b>Expenses:</b>								
Salaries:								
Attorneys	499,240	24,508	15,343	539,091	1,110,347	376,721	2,026,159	1,749,482
Paralegals	264,360	18,598	7,179	290,137	227,411	228,083	745,631	726,817
Support staff and administration	232,535	12,947	6,315	251,797	438,144	190,269	880,210	897,585
Law students	-	-	-	-	-	1,851	1,851	3,412
Contributed services	-	-	-	-	-	152,865	152,865	101,715
Total salaries	<u>996,135</u>	<u>56,053</u>	<u>28,837</u>	<u>1,081,025</u>	<u>1,775,902</u>	<u>949,789</u>	<u>3,806,716</u>	<u>3,479,011</u>
Fringe benefits:								
Payroll taxes	80,165	4,290	2,177	86,632	136,294	53,188	276,114	255,279
Unemployment	3,071	173	83	3,327	5,346	2,318	10,991	13,466
Retirement	50,057	2,818	1,359	54,234	87,071	37,859	179,164	183,176
Health and dental insurance	276,826	15,587	7,518	299,931	481,962	208,941	990,834	854,202
Group life and disability insurance	13,332	751	362	14,445	23,188	10,085	47,718	45,136
Workers' compensation	2,299	129	62	2,490	3,997	1,739	8,226	7,136
Total fringe benefits	<u>425,750</u>	<u>23,748</u>	<u>11,561</u>	<u>461,059</u>	<u>737,858</u>	<u>314,130</u>	<u>1,513,047</u>	<u>1,358,395</u>
Consultants and contractors:								
Consultants	27,869	1,493	757	30,119	46,681	18,956	95,756	47,781
Auditing	5,478	294	149	5,921	8,866	3,898	18,685	18,310
Judicare and contract attorneys	-	101,459	-	101,459	-	-	101,459	62,283
Total consultants and contractors	<u>33,347</u>	<u>103,246</u>	<u>906</u>	<u>137,499</u>	<u>55,547</u>	<u>22,854</u>	<u>215,900</u>	<u>128,374</u>
Travel:								
Employee travel - local	12,647	712	343	13,702	22,128	9,442	45,272	47,457
Employee travel - training	7,956	448	216	8,620	13,920	5,944	28,484	15,023
Board travel	776	44	21	841	1,357	579	2,777	535
Total travel	<u>21,379</u>	<u>1,204</u>	<u>580</u>	<u>23,163</u>	<u>37,405</u>	<u>15,965</u>	<u>76,533</u>	<u>63,015</u>

(Continued)



# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PRIMARY FUNDING SOURCES

YEAR ENDED JUNE 30, 2019

(With Comparative Totals for Year Ended June 30, 2018)

(Continued)

	Legal Services Corporation				Pennsylvania Legal Aid Network	Other	Totals	
	General Program	PAI	Prior Year Excess Carryover *	Total			2019	2018
	<b>Expenses (Continued):</b>							
Space costs:								
Rent	99,598	5,608	2,705	107,911	174,246	72,324	354,481	332,490
Utilities	6,291	337	171	6,799	10,458	4,141	21,398	19,021
Maintenance and repairs	4,776	256	130	5,162	7,940	3,143	16,245	16,433
Other space costs and parking	7,195	385	195	7,775	11,963	4,736	24,474	17,926
Total space costs	117,860	6,586	3,201	127,647	204,607	84,344	416,598	385,870
Consumable supplies:								
Office supplies	10,451	588	284	11,323	18,281	8,912	38,516	21,174
Minor office accessories	7,976	449	217	8,642	13,954	5,956	28,552	84,191
Computer supplies	938	53	25	1,016	1,640	701	3,357	5,023
Total consumable supplies	19,365	1,090	526	20,981	33,875	15,569	70,425	110,388
Equipment repairs and maintenance	24,561	1,241	691	26,493	40,733	15,275	82,501	98,142
Other:								
Insurance and bonding	10,452	588	284	11,324	18,283	7,797	37,404	34,203
Printing	767	41	21	829	1,275	503	2,607	9,454
Dues	2,816	118	76	3,010	3,681	13,302	19,993	22,313
Tuition and seminar fees	4,033	227	109	4,369	7,055	3,011	14,435	11,956
Law library	17,911	-	486	18,397	28,354	12,519	59,270	50,586
Telephone	16,517	930	449	17,896	28,899	12,328	59,123	58,066
Connectivity	33,520	1,887	910	36,317	58,634	25,264	120,215	104,964
Advertising	6,385	342	173	6,900	10,616	4,204	21,720	21,591
Court costs	1,064	57	29	1,150	1,769	701	3,620	5,000
Postage	5,065	271	138	5,474	8,422	3,332	17,228	19,343
Bad debt expense	-	-	-	-	-	20,859	20,859	35,237
Fundraising	-	-	-	-	-	6,291	6,291	7,580
Miscellaneous	1,498	80	41	1,619	2,523	1,094	5,236	9,110
Total other	100,028	4,541	2,716	107,285	169,511	111,205	388,001	389,403
Depreciation	-	-	-	-	-	30,582	30,582	24,197
Total expenses	1,738,425	197,709	49,018	1,985,152	3,055,438	1,559,713	6,600,303	6,036,795
<b>Change in Net Assets</b>	102,706	-	(49,018)	53,688	120,344	61,243	235,275	162,578
<b>Reclassification of</b>								
<b>Acquisition of Property</b>	(37,932)	-	-	(37,932)	(54,972)	92,904	-	-
<b>Net Assets:</b>								
Beginning of Year	350,550	-	49,018	399,568	185,248	1,309,633	1,894,449	1,731,871
End of Year	\$ 415,324	\$ -	\$ -	\$ 415,324	\$ 250,620	\$ 1,463,780	\$ 2,129,724	\$ 1,894,449
<b>Acquisition of Property</b>	\$ 37,932	\$ -	\$ -	\$ 37,932	\$ 54,972	\$ 19,162	\$ 112,066	\$ 15,831

\* Total prior year carryover was \$244,537, of which \$49,018 was in excess of 10%.

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PLAN FUNDING SOURCES

YEAR ENDED JUNE 30, 2019

	Pennsylvania Legal Aid Network							Total
	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	Employment Project	Bank of America	
<b>Revenues and Other Support:</b>								
Contracts and grants	\$ 651,452	\$ 1,826,853	\$ 314,035	\$ 115,862	\$ 257,224	\$ 450	\$ 5,484	\$ 3,171,360
Interest income	-	3,876	-	-	546	-	-	4,422
Total revenues and other support	651,452	1,830,729	314,035	115,862	257,770	450	5,484	3,175,782
<b>Expenses:</b>								
Salaries:								
Attorneys	286,830	563,384	130,264	37,727	85,221	72	6,849	1,110,347
Paralegals	29,389	152,614	18,309	7,119	19,058	331	591	227,411
Support staff and administration	25,409	329,549	19,192	25,633	38,341	-	20	438,144
Total salaries	341,628	1,045,547	167,765	70,479	142,620	403	7,460	1,775,902
Fringe benefits:								
Payroll taxes	26,134	79,984	12,834	5,830	10,910	31	571	136,294
Unemployment	1,268	2,872	596	188	418	-	4	5,346
Retirement	20,667	46,816	9,709	3,059	6,820	-	-	87,071
Health and dental insurance	114,299	258,907	53,695	16,918	37,717	16	410	481,962
Group life and disability insurance	5,504	12,467	2,586	815	1,816	-	-	23,188
Workers' compensation	949	2,149	446	140	313	-	-	3,997
Total fringe benefits	168,821	403,195	79,866	26,950	57,994	47	985	737,858
Consultants and contractors:								
Consultants	10,949	24,801	5,144	1,621	3,613	-	553	46,681
Auditing	2,155	4,882	1,012	319	445	-	53	8,866
Total consultants and contractors	13,104	29,683	6,156	1,940	4,058	-	606	55,547
Travel:								
Employee travel - local	5,222	11,829	2,453	773	1,723	-	128	22,128
Employee travel - training	3,285	7,442	1,543	486	1,084	-	80	13,920
Board travel	320	726	150	47	106	-	8	1,357
Total travel	8,827	19,997	4,146	1,306	2,913	-	216	37,405

(Continued)

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PLAN FUNDING SOURCES

YEAR ENDED JUNE 30, 2019  
(Continued)

### Pennsylvania Legal Aid Network

	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	Employment Project	Bank of America	Total
<b>Expenses (Continued):</b>								
Space costs:								
Rent	41,121	93,149	19,316	6,086	13,570	-	1,004	174,246
Utilities	2,468	5,591	1,159	365	815	-	60	10,458
Maintenance and repairs	1,874	4,245	880	277	618	-	46	7,940
Other space costs and parking	2,823	6,395	1,326	418	932	-	69	11,963
Total space costs	<u>48,286</u>	<u>109,380</u>	<u>22,681</u>	<u>7,146</u>	<u>15,935</u>	<u>-</u>	<u>1,179</u>	<u>204,607</u>
Consumable supplies:								
Office supplies	4,314	9,772	2,027	639	1,424	-	105	18,281
Minor office accessories	3,293	7,460	1,547	487	1,087	-	80	13,954
Computer supplies	387	877	182	57	128	-	9	1,640
Total consumable supplies	<u>7,994</u>	<u>18,109</u>	<u>3,756</u>	<u>1,183</u>	<u>2,639</u>	<u>-</u>	<u>194</u>	<u>33,875</u>
Equipment repairs and maintenance	<u>9,595</u>	<u>21,960</u>	<u>4,514</u>	<u>1,439</u>	<u>3,003</u>	<u>-</u>	<u>222</u>	<u>40,733</u>
Other:								
Insurance and bonding	4,314	9,774	2,027	639	1,424	-	105	18,283
Printing	301	682	141	45	99	-	7	1,275
Dues	869	1,967	408	129	287	-	21	3,681
Tuition and seminar fees	1,665	3,772	782	246	549	-	41	7,055
Law library	6,814	15,435	3,201	489	2,249	-	166	28,354
Telephone	6,819	15,449	3,204	1,009	2,251	-	167	28,899
Connectivity	13,837	31,345	6,500	2,048	4,566	-	338	58,634
Advertising	2,505	5,675	1,177	371	827	-	61	10,616
Court costs	417	946	196	62	138	-	10	1,769
Postage	1,987	4,502	934	294	656	-	49	8,422
Miscellaneous	597	1,345	282	87	196	-	16	2,523
Total other	<u>40,125</u>	<u>90,892</u>	<u>18,852</u>	<u>5,419</u>	<u>13,242</u>	<u>-</u>	<u>981</u>	<u>169,511</u>
Total expenses	<u>638,380</u>	<u>1,738,763</u>	<u>307,736</u>	<u>115,862</u>	<u>242,404</u>	<u>450</u>	<u>11,843</u>	<u>3,055,438</u>
<b>Change in Net Assets</b>	<u>13,072</u>	<u>91,966</u>	<u>6,299</u>	<u>-</u>	<u>15,366</u>	<u>-</u>	<u>(6,359)</u>	<u>120,344</u>
<b>Reclassification of</b>								
<b>Acquisition of Property</b>	<u>(13,072)</u>	<u>(35,601)</u>	<u>(6,299)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,972)</u>
<b>Net Assets:</b>								
Beginning of Year	<u>-</u>	<u>163,323</u>	<u>-</u>	<u>-</u>	<u>15,566</u>	<u>-</u>	<u>6,359</u>	<u>185,248</u>
End of Year	<u>\$ -</u>	<u>\$ 219,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,620</u>
<b>Acquisition of Property</b>	<u>\$ 13,072</u>	<u>\$ 35,601</u>	<u>\$ 6,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,972</u>

**NORTH PENN LEGAL SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2019**

Grantor/Program Title/ Pass-Through Agency	Pass-Through Grantor Number	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Congress:</u>				
Legal Services Corporation	N/A	09.U01.339070	\$ 2,023,084	\$ -
Total U.S. Congress			<u>2,023,084</u>	<u>-</u>
<u>U.S. Department of Health and Human Services:</u>				
Passed through Commonwealth of Pennsylvania Department of Human Services:				
Passed through Pennsylvania Legal Aid Network:				
Title XX Social Services Block Grant	NPLS	93.667	651,452	-
Total U.S. Department of Health and Human Services			<u>651,452</u>	<u>-</u>
<u>U.S. Department of Justice:</u>				
Passed through Pennsylvania Commission on Crime and Delinquency:				
Crime Victim Assistance	2016-VF-05-26841	16.575	106,238	-
Passed through Luzerne County:				
Violence Against Women Formula Grants	2016-VA-07 26313-2	16.588	6,545	-
Violence Against Women Formula Grants	2016-VA-07 28778	16.588	1,266	-
Passed through Victim's Resource Center:				
Violence Against Women Formula Grants	N/A	16.588	12,351	-
Subtotal 16.588			<u>20,162</u>	<u>-</u>
Total U.S. Department of Justice			<u>126,400</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development:</u>				
Passed through County of Lehigh:				
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii	N/A	14.228	6,534	-
Passed through City of Bethlehem:				
Community Development Block Grant/Entitlement Grants	CDBG 2017-08	14.218	17,610	-
Passed through County of Northampton:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	16,986	-
Passed through City of Allentown:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	25,407	-
Passed through City of Easton:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	7,501	-
Subtotal CDBG - Entitlement Grants Cluster			<u>67,504</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>74,038</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,874,974</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

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### **1. General**

The accompanying schedule of expenditures of federal awards reflects the activity of all federal awards programs of North Penn Legal Services, Inc.

North Penn Legal Services, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

### **2. Basis of Accounting and Relationship to the Basic Financial Statements**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 2 to the financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule of expenditures of federal awards presents only a selected portion of the operations of North Penn Legal Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of North Penn Legal Services, Inc.

Such expenditures are recognized following, as applicable, either the Legal Services Corporation Regulations (45 CFR Part 1630) or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**North Penn Legal Services, Inc.**

Independent Auditor's Reports  
Required by the Uniform Guidance

Year Ended June 30, 2019

**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 Government Auditing Standards**

**Board of Directors  
North Penn Legal  
Services, Inc.**

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 North Penn Legal Services, Inc. (NPLS), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 8, 2019.

## **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NPLS’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 NPLS’s internal control. Accordingly, we do not express an opinion on the effectiveness of NPLS’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 NPLS'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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

*Maher Duessel*

Harrisburg, Pennsylvania  
October 8, 2019



## **Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance**

**Board of Directors  
North Penn Legal  
Services, Inc.**

### **Report on Compliance for the Major Federal Program**

We have audited North Penn Legal Services, Inc.'s (NPLS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and *Legal Services Corporation (LSC) Audit Guide for Recipients and Auditors and Compliance Supplement* that could have a direct and material effect on NPLS's major federal program for the year ended June 30, 2019. NPLS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned 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 NPLS's major federal program 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; 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 for Recipients and Auditors and Compliance Supplement*. 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 NPLS'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 the major federal program. However, our audit does not provide a legal determination of NPLS's compliance.

Board of Directors  
North Penn Legal Services, Inc.  
Independent Auditor's Report on Compliance for  
the Major Program and on Internal Control over  
Compliance Required by the Uniform Guidance

***Opinion on the Major Federal Program***

In our opinion, NPLS 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 June 30, 2019.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

NPLS's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NPLS'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 NPLS 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 NPLS's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 NPLS'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

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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, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

NPLS's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NPLS's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Maher Duessel*

Harrisburg, Pennsylvania  
October 8, 2019

# **NORTH PENN LEGAL SERVICES, INC.**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

YEAR ENDED JUNE 30, 2019

### **FINANCIAL STATEMENT FINDINGS**

#### **Finding 2018-001: Financial Reporting**

*Statement of Condition:* During the audit process, various adjustments were made to North Penn Legal Services' (NPLS) accounting records, which decreased assets by \$12,932, increased liabilities by \$93,154, decreased ending net assets by \$106,086, decreased revenue by \$110,780, and decreased expenses by \$16,671.

*Current Status:* NPLS successfully implemented its corrective action.

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

### I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

2. Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

3. Noncompliance material to financial statements noted?  yes  no

4. Internal control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiencies identified that are not considered to be material weakness(es)?  yes  none reported

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

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?  yes  no

7. Major Programs:

CFDA Number(s)

09.U01.339070

Name of Federal Program or Cluster

Legal Services Corporation

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee?  yes  no

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

**No matters were reported.**

III. Findings and questioned costs for federal awards.

### **Finding 2019-001: Eligibility**

U.S. Congress via Legal Services Corporation (CFDA # 09.U01.33070)

*Statement of Condition:* During our audit, we tested 60 case files, and two of the case files did not have signed retainer agreements at year-end. One of the files contained a retainer agreement, but it was missing the client's signature. The other file had no retainer agreement.

*Criteria:* The Code of Federal Regulations (45 CFR 1611.9a) requires LSC recipients to execute a written retainer agreement with the client when a recipient provides extended services. The retainer agreement shall be executed when representation commences or as soon thereafter as is practicable.

*Cause:* Adequate procedures were not in place to ensure that all extended service case files contain executed retainer agreements.

*Effect of the Condition:* A signed retainer agreement was not maintained in two files at year-end.

*Questioned Costs:* The amount of questioned costs, if any, is not able to be determined.

*Recommendation:* We recommend that NPLS re-evaluate its procedures to ensure that all cases requiring a signed retainer agreement are properly executed and maintained in the case files.

*Views of Responsible Officials:* NPLS will have additional training for all NPLS staff in October 2019 on the importance of obtaining the client's signature on the signed retainer agreement for extended service cases at the commencement of extended services cases. NPLS has implemented a procedure for scanning executed retainer agreements into the case management system in 2018. NPLS's staff will receive additional training on review of the file for signed retainer agreements by compliance support staff after intake and at case review or case closing by managers.