

North Penn Legal Services, Inc.

Financial Statements and
Supplementary Information

Years Ended June 30, 2017 and 2016
with Independent Auditor's Reports

MaherDuessel

Pursuing the profession while promoting the public good©
www.md-cpas.com

NORTH PENN LEGAL SERVICES, INC.

YEARS ENDED JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

Independent Auditor's Report

Financial Statements:

Statements of Financial Position	1
Statement of Activities – Year Ended June 30, 2017	2
Statement of Activities – Year Ended June 30, 2016	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Supplementary Information:

Schedule of Revenue and Other Support, Expenses, and Changes in Net Assets by Primary Funding Sources	17
Schedule of Revenue and Other Support, Expenses, and Changes in Net Assets by PLAN Funding Sources	19
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22

Independent Auditor's Reports Required by the Uniform Guidance:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
---	----

NORTH PENN LEGAL SERVICES, INC.

YEARS ENDED JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

(Continued)

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	25
Summary Schedule of Prior Audit Findings	28
Schedule of Findings and Questioned Costs	29

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, 2017 and 2016, 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, 2017 and 2016, 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.

Other Matters

Other 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 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 12, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is

Board of Directors
North Penn Legal Services, Inc.
Independent Auditor's Report
Page 3

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 12, 2017

NORTH PENN LEGAL SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 1,333,742	\$ 1,204,825
Client escrow funds	4,337	915
Accounts receivable:		
PLAN	105,304	193,547
Other	302,898	256,596
Prepaid expenses	114,014	95,361
Property and equipment, net	65,443	85,894
Total Assets	<u>\$ 1,925,738</u>	<u>\$ 1,837,138</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 79,446	\$ 164,432
Bank overdraft	-	140,169
Accrued compensated absences	110,084	110,084
Client trust deposits	4,337	915
Total Liabilities	<u>193,867</u>	<u>415,600</u>
Net assets:		
Unrestricted	1,268,365	1,033,501
Temporarily	463,506	388,037
Total Net Assets	<u>1,731,871</u>	<u>1,421,538</u>
Total Liabilities and Net Assets	<u>\$ 1,925,738</u>	<u>\$ 1,837,138</u>

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

NORTH PENN LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total 2017
Revenues and Other Support:			
Contracts and grants	\$ 5,796,793	\$ 75,469	\$ 5,872,262
Contributions:			
In-kind	127,275	-	127,275
Other	68,411	-	68,411
Interest income	875	-	875
Other income	4,220	-	4,220
Net assets released from restrictions	-	-	-
Total revenues and other support	<u>5,997,574</u>	<u>75,469</u>	<u>6,073,043</u>
Expenses:			
Program services	5,096,806	-	5,096,806
Management and general	636,283	-	636,283
Fundraising	29,621	-	29,621
Total expenses	<u>5,762,710</u>	<u>-</u>	<u>5,762,710</u>
Change in Net Assets	234,864	75,469	310,333
Net Assets:			
Beginning of year	<u>1,033,501</u>	<u>388,037</u>	<u>1,421,538</u>
End of year	<u>\$ 1,268,365</u>	<u>\$ 463,506</u>	<u>\$ 1,731,871</u>

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

NORTH PENN LEGAL SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total 2016
Revenues and Other Support:			
Contracts and grants	\$ 5,366,437	\$ 2,690	\$ 5,369,127
Contributions:			
In-kind	294,770	-	294,770
Other	108,567	-	108,567
Interest income	686	-	686
Other income	5,550	-	5,550
Net assets released from restrictions	146,259	(146,259)	-
Total revenues and other support	<u>5,922,269</u>	<u>(143,569)</u>	<u>5,778,700</u>
Expenses:			
Program services	5,149,587	-	5,149,587
Management and general	648,666	-	648,666
Fundraising	17,316	-	17,316
Total expenses	<u>5,815,569</u>	<u>-</u>	<u>5,815,569</u>
Change in Net Assets	106,700	(143,569)	(36,869)
Net Assets:			
Beginning of year	<u>926,801</u>	<u>531,606</u>	<u>1,458,407</u>
End of year	<u>\$ 1,033,501</u>	<u>\$ 388,037</u>	<u>\$ 1,421,538</u>

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

NORTH PENN LEGAL SERVICES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	Program Services	Management and General	Fund- raising	Total 2017
Salaries	\$ 3,009,854	\$ 367,355	\$ 12,997	\$ 3,390,206
Fringe benefits	996,027	127,405	4,974	1,128,406
Consultants and contractors	92,592	24,820	290	117,702
Travel	46,215	16,372	283	62,870
Space costs	361,169	44,866	1,840	407,875
Consumable supplies	97,132	15,021	509	112,662
Equipment repairs and maintenance	66,058	10,901	350	77,309
Donated services contract	-	-	-	-
Other	383,719	24,100	8,378	416,197
Depreciation	44,040	5,443	-	49,483
Total expenses	\$ 5,096,806	\$ 636,283	\$ 29,621	\$ 5,762,710

	Program Services	Management and General	Fund- raising	Total 2016
Salaries	\$ 3,131,818	\$ 401,778	\$ 8,164	\$ 3,541,760
Fringe benefits	984,854	136,333	1,020	1,122,207
Consultants and contractors	78,769	9,421	17	88,207
Travel	42,662	16,876	27	59,565
Space costs	361,301	27,208	177	388,686
Consumable supplies	45,365	18,161	29	63,555
Equipment repairs and maintenance	66,265	14,089	36	80,390
Donated services contract	68,300	-	-	68,300
Other	325,386	23,062	7,846	356,294
Depreciation	44,867	1,738	-	46,605
Total expenses	\$ 5,149,587	\$ 648,666	\$ 17,316	\$ 5,815,569

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

NORTH PENN LEGAL SERVICES, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 310,333	\$ (36,869)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	49,483	46,605
(Increase) decrease in:		
Accounts receivable	41,941	29,723
Prepaid expenses	(18,653)	(3,583)
Increase (decrease) in:		
Accounts payable and accrued expenses	(84,986)	71,715
Accrued compensated absences	-	162
	298,118	107,753
Net cash and cash equivalents provided by operating activities	298,118	107,753
Cash Flows From Investing Activities:		
Purchases of equipment	(29,032)	-
Net cash and cash equivalents used in investing activities	(29,032)	-
Cash Flows From Financing Activities:		
Bank overdrafts	(140,169)	140,169
Net cash and cash equivalents provided by (used in) financing activities	(140,169)	140,169
Net Increase in Cash and Cash Equivalents	128,917	247,922
Cash and Cash Equivalents:		
Beginning of year	1,204,825	956,903
End of year	\$ 1,333,742	\$ 1,204,825

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

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 AND 2016

Basis of Presentation

Net assets and revenues, expenses, gains, and losses 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:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NPLS and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations 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.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

Contributions

NPLS is required to record contributions received as unrestricted, temporarily restricted, or permanently restricted support. 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 unrestricted net assets 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 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 assets 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, 2017 AND 2016

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 \$127,275 and \$226,470 for the years ended June 30, 2017 and 2016, 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 849 and 1,510 hours of pro bono legal services were provided by attorneys during the years ended June 30, 2017 and 2016, respectively. During the year ended June 30, 2016, NPLS also received a donated services contract from PLAN valued at \$68,300, which consisted of the cost of acquisition and implementation fees and data migration services for a new case management system.

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. NPLS is not considered a private foundation for federal income tax purposes. NPLS annually files a Form 990.

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

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Standards Update

Accounting Standards Update (ASU) 2014-09, *“Revenue from Contracts with Customers,”* 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.

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* is effective for NPLS’s financial statements for the year ending June 30, 2019. This amendment 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. The ASU changes the net asset classification, how underwater donor-restricted endowment funds are treated, will increase the information available about liquidity and the availability of resources, requires financial statements for not-for-profits to provide expenses both by nature and function, as well as an analysis of those expenses by both nature and function, along with disclosure of the methods used to allocate those costs among the various functions, and standardizes how organizations present investment returns and what expenses should be netted against those returns. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. 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.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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. Conditional Promises to Give

NPLS will receive \$85,000 on December 31, 2017 if the following grant conditions have been met:

- (1) Commitment that the Bloomsburg office will remain open for two years on a full-time basis
- (2) Commitment of two-year full-time employment by an attorney at the Bloomsburg office
- (3) A support staff person to be employed at the Bloomsburg office with sufficient hours to fulfill continuation of serving the Columbia/Montour community to the same degree and numbers which the office has served the community per year during the past three years
- (4) Submission of the total number of clients served at the Bloomsburg office per year for the three years prior to the grant and the number served at the end of each grant year

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NPLS will receive \$15,000 on January 1, 2018 if the following grant conditions have been met:

- (1) Commitment that the Bloomsburg office will remain open for two years
- (2) A support staff person must be employed at the Bloomsburg office
- (3) Two-year budget plan for the Bloomsburg office, including office space
- (4) Commitment of two-year full-time employment by an attorney at the Bloomsburg office
- (5) Submission of percentage of residents served in the donor's service area at the Bloomsburg office per year
- (6) Description of the use of technology at the Bloomsburg office over the course of the two years

5. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 466,298	\$ 437,266
Leasehold improvements	<u>17,887</u>	<u>17,887</u>
	484,185	455,153
Accumulated depreciation	<u>(418,742)</u>	<u>(369,259)</u>
Property and equipment, net	<u>\$ 65,443</u>	<u>\$ 85,894</u>

Depreciation expense totaled \$49,483 and \$46,605 for the years ended June 30, 2017 and 2016, respectively.

6. Line of Credit

NPLS has a secured line of credit agreement with Penn Security Bank & Trust with a credit limit of \$500,000. The line is collateralized by NPLS's assets and is renewable 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, 2017 and 2016.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

7. Net Assets and Transfers Between Net Assets

Net assets as of June 30, 2017 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
IOLTA carryover	\$ -	\$ 11,610
Access to Justice Act carryover	-	136,192
LSC - fiscal year carryover	-	155,573
LSC - advance funding	-	157,018
Property and equipment - other	65,443	-
Other	<u>1,202,922</u>	<u>3,113</u>
Total	<u>\$ 1,268,365</u>	<u>\$ 463,506</u>

Net assets as of June 30, 2016 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
IOLTA carryover	\$ -	\$ 4,734
Access to Justice Act carryover	-	117,133
LSC - fiscal year carryover	-	109,223
LSC - advance funding	-	156,947
Property and equipment - other	85,894	-
Other	<u>947,607</u>	<u>-</u>
Total	<u>\$ 1,033,501</u>	<u>\$ 388,037</u>

LSC permits up to 10% of current funding to be carried over to the next fiscal year. As of June 30, 2017 and 2016, NPLS had an LSC carryover totaling \$155,573 and \$109,223 (8.3% and 5.8% of applicable year funding), respectively.

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 temporarily restricted net assets. The recipient may request a written waiver to carry over up to 25% of these funds. No written waiver was required for the years ended June 30, 2017 and 2016.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

8. 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, 2017 and 2016 was \$325,292 and \$320,331, respectively.

The following is a schedule of future minimum lease payments under non-cancelable leases as of June 30, 2017:

Year Ending June 30,	Amount
2018	\$ 195,920
2019	220,253
2020	226,471
2021	240,297
2022	245,209
2023-2026	558,221
	<u>\$ 1,686,371</u>

9. Funding

The receivable from PLAN represents final payment due to NPLS for the grant contract ended June 30, 2017.

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, 2016 through June 30, 2017 totaled \$1,880,204. NPLS expended \$126,478 of its LSC funding for PAI during the year ended June 30, 2017. This amount constituted 6.7% 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.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

10. Retirement Plan

NPLS has a 401(k) retirement plan available to eligible employees. For the years ended June 30, 2017 and 2016, NPLS adopted an employer contribution percentage of 5.5% and zero percent of gross wages, respectively, which were contributed to the plan. Employees may make additional contributions to the plan on a voluntary basis. Employer contributions to the plan totaled \$167,400 for the year ended June 30, 2017.

11. 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 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.

NORTH PENN LEGAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

PLAN and LSC funding is dependent on the budgeting processes of the Commonwealth of Pennsylvania and the federal government. The LSC grants were approximately 31.9% of total revenue and other support for the year ended June 30, 2017. The PLAN grant (including IOLTA funding) was approximately 45.6% of total revenue and other support for the year ended June 30, 2017. Total revenue and other support used in these calculations do not include in-kind contributions.

12. Subgrant

NPLS provides a subgrant to the Lackawanna Bar Association for the administration of “pro bono” legal services for PAI. The amount of the subgrant provided was \$0 and \$4,000 for the years ended June 30, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

NORTH PENN LEGAL SERVICES, INC.

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

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

	Legal Services Corporation						Totals	
	General Program	Technology Initiative Grant	PAI	Total	Pennsylvania Legal Aid Network	Other	2017	2016
	Revenues and Other Support:							
Contracts and grants	\$ 1,753,726	\$ 18,350	\$ 126,478	\$ 1,898,554	\$ 2,709,974	\$ 1,263,734	\$ 5,872,262	\$ 5,369,127
In-kind contributions	-	-	-	-	-	127,275	127,275	294,770
Other contributions	-	-	-	-	-	68,411	68,411	108,567
Interest income	-	-	-	-	513	362	875	686
Other income	-	-	-	-	-	4,220	4,220	5,550
Total revenues and other support	<u>1,753,726</u>	<u>18,350</u>	<u>126,478</u>	<u>1,898,554</u>	<u>2,710,487</u>	<u>1,464,002</u>	<u>6,073,043</u>	<u>5,778,700</u>
Expenses:								
Salaries:								
Attorneys	539,188	13,754	5,798	558,740	894,654	241,266	1,694,660	1,783,752
Paralegals	213,192	25	10,608	223,825	260,782	165,225	649,832	542,975
Support staff and administration	243,982	-	27,611	271,593	463,511	178,330	913,434	982,029
Law students	-	-	-	-	-	5,005	5,005	6,534
Contributed services	-	-	-	-	-	127,275	127,275	226,470
Total salaries	<u>996,362</u>	<u>13,779</u>	<u>44,017</u>	<u>1,054,158</u>	<u>1,618,947</u>	<u>717,101</u>	<u>3,390,206</u>	<u>3,541,760</u>
Fringe benefits:								
Payroll taxes	73,424	1,054	3,370	77,848	123,896	44,640	246,384	250,869
Unemployment	10,088	2,019	505	12,612	18,198	6,635	37,445	18,157
Retirement	53,178	220	2,258	55,656	82,087	29,657	167,400	727
Health and dental insurance	196,653	984	8,460	206,097	309,238	111,767	627,102	803,160
Group life and disability insurance	13,171	248	569	13,988	20,743	7,478	42,209	39,927
Workers' compensation	2,498	46	106	2,650	3,823	1,393	7,866	9,367
Total fringe benefits	<u>349,012</u>	<u>4,571</u>	<u>15,268</u>	<u>368,851</u>	<u>557,985</u>	<u>201,570</u>	<u>1,128,406</u>	<u>1,122,207</u>
Consultants and contractors:								
Consultants	16,140	-	622	16,762	22,463	6,853	46,078	20,580
Auditing	5,784	-	245	6,029	8,892	3,208	18,129	17,950
Judicare and contract attorneys	-	-	53,495	53,495	-	-	53,495	45,677
Subrecipients	-	-	-	-	-	-	-	4,000
Total consultants and contractors	<u>21,924</u>	<u>-</u>	<u>54,362</u>	<u>76,286</u>	<u>31,355</u>	<u>10,061</u>	<u>117,702</u>	<u>88,207</u>
Travel:								
Employee travel - local	16,102	-	626	16,728	22,705	7,019	46,452	39,957
Employee travel - training	5,393	-	209	5,602	7,535	2,341	15,478	18,799
Board travel	329	-	13	342	457	141	940	809
Total travel	<u>21,824</u>	<u>-</u>	<u>848</u>	<u>22,672</u>	<u>30,697</u>	<u>9,501</u>	<u>62,870</u>	<u>59,565</u>

(Continued)

NORTH PENN LEGAL SERVICES, INC.

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

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year Ended June 30, 2016)

(Continued)

Expenses (Continued):	Legal Services Corporation						Totals	
	General Program	Technology Initiative Grant	PAI	Total	Pennsylvania Legal Aid Network	Other	2017	2016
	Space costs:							
Rent	112,201	-	4,388	116,589	159,560	49,143	325,292	320,331
Utilities	7,090	-	278	7,368	10,137	3,113	20,618	24,529
Maintenance and repairs	6,893	-	270	7,163	9,807	3,022	19,992	22,616
Other space costs and parking	14,477	-	566	15,043	20,590	6,340	41,973	21,210
Total space costs	140,661	-	5,502	146,163	200,094	61,618	407,875	388,686
Consumable supplies:								
Office supplies	12,525	-	488	13,013	17,681	5,461	36,155	43,160
Minor office accessories	25,641	-	991	26,632	35,757	11,108	73,497	18,190
Computer supplies	1,052	-	41	1,093	1,463	454	3,010	2,205
Total consumable supplies	39,218	-	1,520	40,738	54,901	17,023	112,662	63,555
Equipment repairs and maintenance	27,392	-	1,043	28,435	37,185	11,689	77,309	80,390
Donated services contract	-	-	-	-	-	-	-	68,300
Other:								
Insurance and bonding	11,243	-	440	11,683	16,021	4,929	32,633	31,221
Printing	2,542	-	99	2,641	3,562	1,104	7,307	12,735
Dues	5,000	-	-	5,000	8,981	9,488	23,469	24,578
Tuition and seminar fees	5,632	-	217	5,849	7,832	2,435	16,116	24,683
Law library	17,692	-	672	18,364	23,919	7,553	49,836	39,377
Telephone	15,303	-	747	16,050	27,888	11,457	55,395	57,472
Connectivity	35,332	-	1,378	36,710	48,801	15,218	100,729	94,207
Advertising	553	-	22	575	784	240	1,599	687
Court costs	893	-	33	926	1,165	374	2,465	10,204
Postage	6,537	-	255	6,792	9,235	2,851	18,878	24,437
Bad debt expense	-	-	-	-	-	96,303	96,303	21,214
Miscellaneous	1,488	-	55	1,543	2,087	7,837	11,467	15,479
Total other	102,215	-	3,918	106,133	150,275	159,789	416,197	356,294
Depreciation	-	-	-	-	-	49,483	49,483	46,605
Total expenses	1,698,608	18,350	126,478	1,843,436	2,681,439	1,237,835	5,762,710	5,815,569
Change in Net Assets	55,118	-	-	55,118	29,048	226,167	310,333	(36,869)
Reclassification of								
Acquisition of Property	(8,697)	-	-	(8,697)	-	8,697	-	-
Net Assets:								
Beginning of Year	266,170	-	-	266,170	121,867	1,033,501	1,421,538	1,458,407
End of Year	\$ 312,591	\$ -	\$ -	\$ 312,591	\$ 150,915	\$ 1,268,365	\$ 1,731,871	\$ 1,421,538
Acquisition of Property	\$ 8,697	\$ -	\$ -	\$ 8,697	\$ -	\$ 20,336	\$ 29,033	\$ -

(Concluded)

NORTH PENN LEGAL SERVICES, INC.

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

YEAR ENDED JUNE 30, 2017

	Pennsylvania Legal Aid Network							Total
	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	HASA Mortgage Foreclosure	Bank of America	
Revenues and Other Support:								
Contracts and grants	\$ 673,584	\$ 1,361,921	\$ 354,937	\$ 117,219	\$ 116,104	\$ 67,626	\$ 18,583	\$ 2,709,974
Interest income	-	449	-	-	38	20	6	513
Total revenues and other support	<u>673,584</u>	<u>1,362,370</u>	<u>354,937</u>	<u>117,219</u>	<u>116,142</u>	<u>67,646</u>	<u>18,589</u>	<u>2,710,487</u>
Expenses:								
Salaries:								
Attorneys	211,388	426,819	170,750	15,239	35,046	29,673	5,739	894,654
Paralegals	67,541	128,483	16,551	36,979	10,697	401	130	260,782
Support staff and administration	135,181	271,191	30	21,876	21,063	12,091	2,079	463,511
Total salaries	<u>414,110</u>	<u>826,493</u>	<u>187,331</u>	<u>74,094</u>	<u>66,806</u>	<u>42,165</u>	<u>7,948</u>	<u>1,618,947</u>
Fringe benefits:								
Payroll taxes	31,679	63,227	14,331	5,715	5,111	3,225	608	123,896
Unemployment	4,455	8,871	2,992	575	731	422	152	18,198
Retirement	19,916	39,656	13,378	3,301	3,269	2,151	416	82,087
Health and dental insurance	74,610	148,559	50,114	13,577	12,245	8,186	1,947	309,238
Group life and disability insurance	5,022	9,999	3,373	878	824	547	100	20,743
Workers' compensation	936	1,863	629	120	154	111	10	3,823
Total fringe benefits	<u>136,618</u>	<u>272,175</u>	<u>84,817</u>	<u>24,166</u>	<u>22,334</u>	<u>14,642</u>	<u>3,233</u>	<u>557,985</u>
Consultants and contractors:								
Consultants	5,482	10,915	3,682	777	900	120	587	22,463
Auditing	2,157	4,295	1,449	359	354	229	49	8,892
Total consultants and contractors	<u>7,639</u>	<u>15,210</u>	<u>5,131</u>	<u>1,136</u>	<u>1,254</u>	<u>349</u>	<u>636</u>	<u>31,355</u>
Travel:								
Employee travel - local	5,527	11,004	3,712	842	908	420	292	22,705
Employee travel - training	1,841	3,666	1,237	252	302	200	37	7,535
Board travel	112	223	75	15	18	12	2	457
Total travel	<u>7,480</u>	<u>14,893</u>	<u>5,024</u>	<u>1,109</u>	<u>1,228</u>	<u>632</u>	<u>331</u>	<u>30,697</u>

(Continued)

NORTH PENN LEGAL SERVICES, INC.

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

YEAR ENDED JUNE 30, 2017
(Continued)

	Pennsylvania Legal Aid Network							
Expenses (Continued):	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	HASA Mortgage Foreclosure	Bank of America	Total
Space costs:								
Rent	38,702	77,061	25,995	6,463	6,352	4,207	780	159,560
Utilities	2,453	4,884	1,648	432	403	273	44	10,137
Maintenance and repairs	2,378	4,736	1,598	399	390	259	47	9,807
Other space costs and parking	4,994	9,944	3,354	835	820	328	315	20,590
Total space costs	<u>48,527</u>	<u>96,625</u>	<u>32,595</u>	<u>8,129</u>	<u>7,965</u>	<u>5,067</u>	<u>1,186</u>	<u>200,094</u>
Consumable supplies:								
Office supplies	4,302	8,565	2,889	664	706	441	114	17,681
Minor office accessories	8,744	17,411	5,873	1,167	1,435	534	593	35,757
Computer supplies	358	713	241	46	59	24	22	1,463
Total consumable supplies	<u>13,404</u>	<u>26,689</u>	<u>9,003</u>	<u>1,877</u>	<u>2,200</u>	<u>999</u>	<u>729</u>	<u>54,901</u>
Equipment repairs and maintenance	<u>9,198</u>	<u>17,884</u>	<u>6,178</u>	<u>1,367</u>	<u>1,433</u>	<u>1,014</u>	<u>111</u>	<u>37,185</u>
Other:								
Insurance and bonding	3,883	7,731	2,608	662	637	458	42	16,021
Printing	869	1,731	584	123	143	61	51	3,562
Dues	2,197	4,375	1,476	290	360	145	138	8,981
Tuition and seminar fees	1,918	3,818	1,288	246	315	144	103	7,832
Law library	5,929	11,806	3,982	484	973	548	197	23,919
Telephone	6,591	13,572	4,696	1,098	1,082	714	135	27,888
Connectivity	11,984	23,862	8,049	1,982	1,967	497	460	48,801
Advertising	190	379	128	31	31	22	3	784
Court costs	293	584	197	43	48	-	-	1,165
Postage	2,246	4,472	1,509	312	407	142	147	9,235
Miscellaneous	508	1,012	341	70	83	47	26	2,087
Total other	<u>36,608</u>	<u>73,342</u>	<u>24,858</u>	<u>5,341</u>	<u>6,046</u>	<u>2,778</u>	<u>1,302</u>	<u>150,275</u>
Total expenses	<u>673,584</u>	<u>1,343,311</u>	<u>354,937</u>	<u>117,219</u>	<u>109,266</u>	<u>67,646</u>	<u>15,476</u>	<u>2,681,439</u>
Change in Net Assets	-	19,059	-	-	6,876	-	3,113	29,048
Net Assets:								
Beginning of Year	-	117,133	-	-	4,734	-	-	121,867
End of Year	<u>\$ -</u>	<u>\$ 136,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,610</u>	<u>\$ -</u>	<u>\$ 3,113</u>	<u>\$ 150,915</u>

(Concluded)

NORTH PENN LEGAL SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

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	\$ 1,833,783	\$ -
Legal Services Corporation Technology Initiative Grant	N/A	09.U01.339070	18,350	-
Total U.S. Congress			<u>1,852,133</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	673,584	-
Total U.S. Department of Health and Human Services			<u>673,584</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	68,439	-
Passed through Luzerne County:				
Violence Against Women Formula Grants	2016-VA-07 26313-2	16.588	7,850	-
Passed through Victim's Resource Center:				
Violence Against Women Formula Grants	N/A	16.588	12,675	-
Total U.S. Department of Justice			<u>88,964</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	N/A	14.228	9,751	-
Passed through City of Bethlehem:				
Community Development Block Grant/Entitlement Grants	2016-8	14.218	8,428	-
Passed through County of Northampton:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	11,764	-
Passed through City of Allentown:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	12,474	-
Passed through City of Easton:				
Community Development Block Grant/Entitlement Grants	N/A	14.218	5,185	-
Subtotal CDBG - Entitlement Grants Cluster			<u>37,851</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>47,602</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,662,283</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, 2017

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).

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, 2017

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, 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 October 12, 2017.

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 12, 2017

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 U.S. Office of Management and Budget (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, 2017. 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 the requirements of 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.

Basis for Qualified Opinion on CFDA Number 09.U01.339070 LSC Program

As described in the accompanying schedule of findings and questioned costs, NPLS did not comply with the requirements regarding CFDA Number 09.U01.339070 LSC Program as described in Finding 2017-001 for Eligibility. Compliance with such requirements is necessary, in our opinion, for NPLS to comply with the requirements applicable to that program.

Qualified Opinion on CFDA Number 09.U01.339070 LSC Program

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, NPLS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the LSC program for the year ended June 30, 2017.

Other Matters

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as

Board of Directors
North Penn Legal Services, Inc.
Independent Auditor's Report on Compliance
for the Major Program

discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-001 to be a material weakness.

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.

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 12, 2017

NORTH PENN LEGAL SERVICES, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING: 2016-001 Eligibility

U.S. Congress via Legal Services Corporation (CFDA #09.U01.339070)

Statement of Condition: During our audit, we noted that one out of sixty case files selected for testing was for an applicant with assets exceeding the established asset ceiling. No waiver of the established asset ceiling was approved by the Executive Director and maintained in the case file.

Current Status: North Penn Legal Services (NPLS) successfully implemented its corrective action.

FINDING: 2016-002 Reporting

U.S. Congress via Legal Services Corporation (CFDA #09.U01.339070)

Statement of Condition: During our audit, we noted that one of the two semi-annual case disclosure reports submitted to Legal Services Corporation (LSC) for the year ended June 30, 2016 was missing information required to be disclosed to LSC and the public.

Current Status: NPLS has successfully implemented its corrective action.

NORTH PENN LEGAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

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: Qualified

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

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

No matters were reported.

NORTH PENN LEGAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

III. Findings and questioned costs for federal awards.

FINDING: 2017-001 Eligibility

U.S. Congress via Legal Services Corporation (CFDA #09.U01.339070)

Statement of Condition: During the audit, we noted that the financial eligibility guidelines were not updated since February 27, 2014.

Criteria: The Code of Federal Regulations (45 CFR 1611.3a) requires a Legal Services Corporation (LSC) recipient to adopt guidelines for determining the financial eligibility of persons seeking legal assistance under the LSC Act. The governing body is to review these guidelines at least once every three years and make any necessary adjustments.

Cause: This requirement was overlooked, as it is only required once every three years.

Effect of the Condition: North Penn Legal Services (NPLS) did not comply with 45 CFR 1611.3a, which requires a review of financial eligibility guidelines at least once every three years.

Recommendation: We recommend that NPLS re-evaluate its procedures for updating the financial eligibility guidelines to ensure that an update occurs at least once every three years.

Views of Responsible Officials: This was an oversight by management. Deadlines for this review have been included in NPLS's case management software to ensure that the guidelines are reviewed at least every three years with the governing body.