

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

## Financial Statements and Supplementary Information

Years Ended June 30, 2016 and 2015  
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, 2016 AND 2015

## TABLE OF CONTENTS

### **Independent Auditor's Report**

#### **Financial Statements:**

Statements of Financial Position	1
Statement of Activities – Year Ended June 30, 2016	2
Statement of Activities – Year Ended June 30, 2015	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	16
Schedule of Revenue and Other Support, Expenses, and Changes in Net Assets by PLAN Funding Sources	18
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21

#### **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>	22
Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance	24

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

YEARS ENDED JUNE 30, 2016 AND 2015

## **TABLE OF CONTENTS**

(Continued)

Summary Schedule of Prior Audit Findings	27
Schedule of Findings and Questioned Costs	28

## 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, 2016 and 2015, 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, 2016 and 2015, 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 16 through 19 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 is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, 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 an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NPLS's internal control over financial reporting and compliance.

***Maher Duessel***

Harrisburg, Pennsylvania  
October 6, 2016

# NORTH PENN LEGAL SERVICES, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,204,825	\$ 956,903
Client escrow funds	915	699
Accounts receivable:		
PLAN	193,547	119,195
Other	256,596	360,671
Prepaid expenses	95,361	91,778
Property and equipment, net	85,894	132,499
<b>Total Assets</b>	<b>\$ 1,837,138</b>	<b>\$ 1,661,745</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 164,432	\$ 92,717
Bank overdraft	140,169	-
Accrued compensated absences	110,084	109,922
Client trust deposits	915	699
<b>Total Liabilities</b>	<b>415,600</b>	<b>203,338</b>
<b>Net assets:</b>		
Unrestricted	1,033,501	926,801
Temporarily	388,037	531,606
<b>Total Net Assets</b>	<b>1,421,538</b>	<b>1,458,407</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,837,138</b>	<b>\$ 1,661,745</b>

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
<b>Revenues and Other Support:</b>			
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>
<b>Expenses:</b>			
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>
<b>Change in Net Assets</b>	106,700	(143,569)	(36,869)
<b>Net Assets:</b>			
Beginning of year	926,801	531,606	1,458,407
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.

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total 2015
<b>Revenues and Other Support:</b>			
Contracts and grants	\$ 5,503,692	\$ 1,541	\$ 5,505,233
Contributions:			
In-kind	187,830	-	187,830
Other	42,801	-	42,801
Interest income	1,245	-	1,245
Other income	19,510	-	19,510
Net assets released from restrictions	239,923	(239,923)	-
Total revenues and other support	<u>5,995,001</u>	<u>(238,382)</u>	<u>5,756,619</u>
<b>Expenses:</b>			
Program services	5,423,753	-	5,423,753
Management and general	643,466	-	643,466
Fundraising	21,281	-	21,281
Total expenses	<u>6,088,500</u>	<u>-</u>	<u>6,088,500</u>
<b>Change in Net Assets</b>	(93,499)	(238,382)	(331,881)
<b>Net Assets:</b>			
Beginning of year	<u>1,020,300</u>	<u>769,988</u>	<u>1,790,288</u>
End of year	<u>\$ 926,801</u>	<u>\$ 531,606</u>	<u>\$ 1,458,407</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, 2016 AND 2015

	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
<b>Total expenses</b>	<b>\$ 5,149,587</b>	<b>\$ 648,666</b>	<b>\$ 17,316</b>	<b>\$ 5,815,569</b>

	Program Services	Management and General	Fund- raising	Total 2015
Salaries	\$ 3,041,858	\$ 385,911	\$ 11,589	\$ 3,439,358
Fringe benefits	1,227,084	157,668	2,028	1,386,780
Consultants and contractors	138,521	5,077	18	143,616
Travel	41,247	17,790	-	59,037
Space costs	381,552	24,585	363	406,500
Consumable supplies	109,977	13,762	46	123,785
Equipment repairs and maintenance	71,773	5,261	-	77,034
Donated services contract	-	-	-	-
Other	327,155	27,045	7,237	361,437
Depreciation	84,586	6,367	-	90,953
<b>Total expenses</b>	<b>\$ 5,423,753</b>	<b>\$ 643,466</b>	<b>\$ 21,281</b>	<b>\$ 6,088,500</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ (36,869)	\$ (331,881)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	46,605	90,953
(Increase) decrease in:		
Accounts receivable	29,723	58,432
Prepaid expenses	(3,583)	26,337
Increase (decrease) in:		
Accounts payable and accrued expenses	71,715	(217,704)
Accrued compensated absences	162	(1,359)
Net cash and cash equivalents provided by (used in) operating activities	<u>107,753</u>	<u>(375,222)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchases of equipment	<u>-</u>	<u>(88,113)</u>
Net cash and cash equivalents used in investing activities	<u>-</u>	<u>(88,113)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Bank overdrafts	<u>140,169</u>	<u>-</u>
Net cash and cash equivalents provided by financing activities	<u>140,169</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	247,922	(463,335)
<b><u>Cash and Cash Equivalents:</u></b>		
Beginning of year	<u>956,903</u>	<u>1,420,238</u>
End of year	<u>\$ 1,204,825</u>	<u>\$ 956,903</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, 2016 AND 2015

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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, 2016 AND 2015

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### 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.

### 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, 2016 AND 2015

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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 and amortization are 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.

### 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 \$226,470 and \$187,830 for the years ended June 30, 2016 and 2015, 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 1,510 and 1,252 hours of pro bono legal services were provided by attorneys during the years ended June 30, 2016 and 2015, respectively. During the year ended June 30, 2016, NPLS also received a donated services contract from PLAN valued at \$68,300, which consisted

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

### Pending 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. Management has not yet determined the impact of this amendment on NPLS's financial statements.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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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. Management has not yet determined the impact of this amendment on NPLS's financial statements.

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 this amendment on NPLS's financial statements.

### 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.

### 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.

# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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### 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>2016</u>	<u>2015</u>
Furniture and equipment	\$ 437,266	\$ 605,360
Leasehold improvements	17,887	28,945
Law library	-	99,459
	<u>455,153</u>	<u>733,764</u>
Accumulated depreciation	<u>(369,259)</u>	<u>(601,265)</u>
	<u>\$ 85,894</u>	<u>\$ 132,499</u>

Depreciation expense totaled \$46,605 and \$90,953 for the years ended June 30, 2016 and 2015, respectively.

### 5. 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, 2016 and 2015.



# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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### 6. NET ASSETS AND TRANSFERS BETWEEN NET ASSETS

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

	Unrestricted	Temporarily Restricted
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	947,607	-
Total	<u>\$ 1,033,501</u>	<u>\$ 388,037</u>

Net assets as of June 30, 2015 consist of the following:

	Unrestricted	Temporarily Restricted
IOLTA carryover	\$ -	\$ 4,734
Access to Justice Act carryover	-	117,133
LSC - fiscal year carryover	-	255,482
LSC - advance funding	-	154,257
Property and equipment - other	132,499	-
Other	794,302	-
Total	<u>\$ 926,801</u>	<u>\$ 531,606</u>

LSC permits up to 10% of current funding to be carried over to the next fiscal year. As of June 30, 2016 and 2015, NPLS had an LSC carryover totaling \$109,223 and \$255,482 (5.8% and 13.9% of applicable year funding), respectively.

For the year ended June 30, 2015, an excess carryover of \$71,361 above the 10% of allowed fund balance carryover was approved by LSC to be carried over into the year ended June 30, 2016. Of this excess, \$44,212 was spent on salaries and \$27,149 was spent on fringe benefits during the year ended June 30, 2016.

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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IOLTA and Access to Justice Act 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, 2016 and 2015.

### 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, 2016 and 2015 was \$320,331 and \$313,625, respectively.

The following is a schedule of future minimum lease payments under non-cancelable leases as of June 30, 2016:

Year Ending June 30,	Amount
2017	\$ 191,490
2018	195,920
2019	220,253
2020	226,471
2021	240,297
2022-2026	803,431
	<u>\$ 1,877,862</u>

### 8. FUNDING

The receivable from PLAN represents final payment due to NPLS for the grant contract ended June 30, 2016.

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

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# NORTH PENN LEGAL SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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from LSC for the period July 1, 2015 through June 30, 2016 totaled \$1,869,465. NPLS expended \$140,906 of its LSC funding and \$4,000 of its non-LSC funding, totaling \$144,906, for PAI during the year ended June 30, 2016. This amount constituted 7.8% 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.

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, 2016 and 2015, NPLS adopted an employer contribution percentage of zero and 5.5% 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 \$162,916 for the year ended June 30, 2015.

### **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 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

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

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2016 AND 2015**

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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 34.09% of total revenue and other support for the year ended June 30, 2016. The PLAN grant (including IOLTA funding) was approximately 45.92% of total revenue and other support for the year ended June 30, 2016. Total revenue and other support used in these calculations do not include in-kind contributions.

### **11. SUBGRANTS**

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 \$4,000 and \$8,000 for the years ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2015, NPLS used Special IOLTA funds to provide a subgrant to the Clinton County Bar Association in the amount of \$3,000.

## **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, 2016

(With Comparative Totals for Year Ended June 30, 2015)

	Legal Services Corporation						Totals	
	General Program	PAI	Total	Pennsylvania Legal Aid Network	Non-LSC PAI	Other	2016	2015
<b>Revenues and Other Support:</b>								
Contracts and grants	\$ 1,728,559	\$ 140,906	\$ 1,869,465	\$ 2,518,121	\$ -	\$ 981,536	\$ 5,369,122	\$ 5,489,533
TIG Grant	5	-	5	-	-	-	5	15,700
In-kind contributions	-	-	-	-	-	294,770	294,770	187,830
Other contributions	-	-	-	-	4,000	104,567	108,567	41,582
Interest income	-	-	-	319	-	367	686	1,245
Other income	-	-	-	-	-	5,550	5,550	20,729
Total revenues and other support	<u>1,728,564</u>	<u>140,906</u>	<u>1,869,470</u>	<u>2,518,440</u>	<u>4,000</u>	<u>1,386,790</u>	<u>5,778,700</u>	<u>5,756,619</u>
<b>Expenses:</b>								
Salaries:								
Attorneys	604,310	10,905	615,215	816,602	-	351,935	1,783,752	1,843,845
Paralegals	160,053	11,196	171,249	249,781	-	121,945	542,975	509,253
Support staff and administration	391,366	36,771	428,137	515,436	-	38,456	982,029	893,430
Law students	643	-	643	866	-	5,025	6,534	5,000
Contributed services	-	-	-	-	-	226,470	226,470	187,830
Total salaries	<u>1,156,372</u>	<u>58,872</u>	<u>1,215,244</u>	<u>1,582,685</u>	<u>-</u>	<u>743,831</u>	<u>3,541,760</u>	<u>3,439,358</u>
Fringe benefits:								
Payroll taxes	83,570	4,505	88,075	122,515	-	40,279	250,869	244,704
Unemployment	6,170	323	6,493	8,103	-	3,561	18,157	18,147
Retirement	247	13	260	325	-	142	727	162,916
Health and dental insurance	269,191	14,296	283,487	362,253	-	157,420	803,160	907,269
Group life and disability insurance	13,401	711	14,112	17,990	-	7,825	39,927	46,540
Workers' compensation	3,183	167	3,350	4,180	-	1,837	9,367	7,204
Total fringe benefits	<u>375,762</u>	<u>20,015</u>	<u>395,777</u>	<u>515,366</u>	<u>-</u>	<u>211,064</u>	<u>1,122,207</u>	<u>1,386,780</u>
Consultants and contractors:								
Consultants	7,618	366	7,984	9,217	-	3,379	20,580	47,190
Auditing	6,328	320	6,648	8,069	-	3,233	17,950	17,770
Judicare and contract attorneys	-	45,675	45,675	-	-	2	45,677	67,656
Subrecipients	-	-	-	-	4,000	-	4,000	11,000
Total consultants and contractors	<u>13,946</u>	<u>46,361</u>	<u>60,307</u>	<u>17,286</u>	<u>4,000</u>	<u>6,614</u>	<u>88,207</u>	<u>143,616</u>
Travel:								
Employee travel - local	14,685	711	15,396	17,940	-	6,621	39,957	44,168
Employee travel - training	6,989	335	7,324	8,389	-	3,086	18,799	14,301
Board travel	302	14	316	362	-	131	809	568
Total travel	<u>21,976</u>	<u>1,060</u>	<u>23,036</u>	<u>26,691</u>	<u>-</u>	<u>9,838</u>	<u>59,565</u>	<u>59,037</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, 2016  
(With Comparative Totals for Year Ended June 30, 2015)  
(Continued)

	Legal Services Corporation			Pennsylvania Legal Aid Network	Non-LSC PAI	Other	Totals	
	General Program	PAI	Total				2016	2015
<b>Expenses (Continued):</b>								
Space costs:								
Rent	119,631	5,702	125,333	144,016	-	50,982	320,331	313,625
Utilities	9,041	437	9,478	11,031	-	4,020	24,529	24,813
Maintenance and repairs	8,336	403	8,739	10,170	-	3,707	22,616	24,616
Other space costs and parking	7,826	377	8,203	9,529	-	3,478	21,210	43,446
Total space costs	144,834	6,919	151,753	174,746	-	62,187	388,686	406,500
Consumable supplies:								
Office supplies	15,903	768	16,671	19,415	-	7,074	43,160	40,063
Minor office accessories	6,759	324	7,083	8,127	-	2,980	18,190	77,486
Computer supplies	819	39	858	985	-	362	2,205	6,236
Total consumable supplies	23,481	1,131	24,612	28,527	-	10,416	63,555	123,785
Equipment repairs and maintenance	29,758	1,431	31,189	36,019	-	13,182	80,390	77,034
Donated services contract	-	-	-	-	-	68,300	68,300	-
Other:								
Insurance and bonding	11,497	556	12,053	14,052	-	5,116	31,221	34,227
Printing	1,425	65	1,490	1,633	-	9,612	12,735	6,142
Dues	5,800	-	5,800	8,380	-	10,398	24,578	25,137
Tuition and seminar fees	5,556	439	5,995	11,029	-	7,659	24,683	16,200
Law library	14,815	701	15,516	17,397	-	6,464	39,377	47,645
Telephone	21,239	1,023	22,262	25,789	-	9,421	57,472	105,442
Connectivity	32,144	1,677	33,821	42,229	-	18,157	94,207	88,873
Advertising	254	12	266	307	-	114	687	1,113
Court costs	3,786	182	3,968	4,563	-	1,673	10,204	3,654
Postage	9,003	435	9,438	10,996	-	4,003	24,437	24,999
Bad debt expense	-	-	-	-	-	21,214	21,214	-
Miscellaneous	485	27	512	745	-	14,222	15,479	8,005
Total other	106,004	5,117	111,121	137,120	-	108,053	356,294	361,437
Depreciation and amortization	-	-	-	-	-	46,605	46,605	90,953
Total expenses	1,872,133	140,906	2,013,039	2,518,440	4,000	1,280,090	5,815,569	6,088,500
<b>Change in Net Assets</b>	(143,569)	-	(143,569)	-	-	106,700	(36,869)	(331,881)
<b>Net Assets:</b>								
Beginning of Year	409,739	-	409,739	121,867	-	926,801	1,458,407	1,790,288
End of Year	\$ 266,170	\$ -	\$ 266,170	\$ 121,867	\$ -	\$ 1,033,501	\$ 1,421,538	\$ 1,458,407
<b>Acquisition of Property</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,113

(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, 2016

	Pennsylvania Legal Aid Network						Total
	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	HASA Mortgage Foreclosure	
<b>Revenues and Other Support:</b>							
Contracts and grants	\$ 661,772	\$ 1,250,096	\$ 322,563	\$ 117,560	\$ 77,867	\$ 88,263	\$ 2,518,121
Interest income	-	284	-	-	17	18	319
Total revenues and other support	661,772	1,250,380	322,563	117,560	77,884	88,281	2,518,440
<b>Expenses:</b>							
Salaries:							
Attorneys	222,227	404,626	101,465	21,523	21,269	45,492	816,602
Paralegals	67,014	110,587	32,323	30,434	7,146	2,277	249,781
Support staff and administration	116,481	273,945	69,172	20,001	23,395	12,442	515,436
Law students	196	461	116	34	39	20	866
Total salaries	405,918	789,619	203,076	71,992	51,849	60,231	1,582,685
Fringe benefits:							
Payroll taxes	31,053	60,406	15,535	6,947	3,966	4,608	122,515
Unemployment	2,257	4,020	1,044	324	222	236	8,103
Retirement	90	161	42	13	9	10	325
Health and dental insurance	99,840	177,806	46,167	18,176	9,827	10,437	362,253
Group life and disability insurance	4,963	8,839	2,295	885	489	519	17,990
Workers' compensation	1,164	2,074	538	167	115	122	4,180
Total fringe benefits	139,367	253,306	65,621	26,512	14,628	15,932	515,366
Consultants and contractors:							
Consultants	2,558	4,556	1,183	400	252	268	9,217
Auditing	2,231	3,974	1,032	380	219	233	8,069
Total consultants and contractors	4,789	8,530	2,215	780	471	501	17,286
Travel:							
Employee travel - local	4,967	8,846	2,297	821	489	520	17,940
Employee travel - training	2,337	4,162	1,081	335	230	244	8,389
Board travel	101	180	46	14	10	11	362
Total travel	7,405	13,188	3,424	1,170	729	775	26,691

(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, 2016  
(Continued)

	Pennsylvania Legal Aid Network						Total
	Federal Title XX	Access to Justice Act Funds	State	DAP	IOLTA	HASA Mortgage Foreclosure	
<b>Expenses (Continued):</b>							
Space costs:							
Rent	39,820	70,916	18,413	6,781	3,920	4,166	144,016
Utilities	3,049	5,430	1,410	523	300	319	11,031
Maintenance and repairs	2,811	5,007	1,300	481	277	294	10,170
Other space costs and parking	2,637	4,695	1,219	443	259	276	9,529
Total space costs	<u>48,317</u>	<u>86,048</u>	<u>22,342</u>	<u>8,228</u>	<u>4,756</u>	<u>5,055</u>	<u>174,746</u>
Consumable supplies:							
Office supplies	5,365	9,555	2,481	925	528	561	19,415
Minor office accessories	2,262	4,027	1,046	332	223	237	8,127
Computer supplies	274	488	127	40	27	29	985
Total consumable supplies	<u>7,901</u>	<u>14,070</u>	<u>3,654</u>	<u>1,297</u>	<u>778</u>	<u>827</u>	<u>28,527</u>
Equipment repairs and maintenance	<u>9,993</u>	<u>17,796</u>	<u>4,621</u>	<u>1,701</u>	<u>925</u>	<u>983</u>	<u>36,019</u>
Other:							
Insurance and bonding	3,881	6,912	1,795	676	382	406	14,052
Printing	453	807	210	72	44	47	1,633
Dues	2,334	4,157	1,079	343	230	237	8,380
Tuition and seminar fees	3,068	5,465	1,419	454	302	321	11,029
Law library	4,895	8,718	2,263	527	482	512	17,397
Telephone	7,144	12,723	3,304	1,167	703	748	25,789
Connectivity	11,711	20,856	5,415	1,869	1,153	1,225	42,229
Advertising	85	152	39	14	8	9	307
Court costs	1,268	2,259	587	191	125	133	4,563
Postage	3,038	5,410	1,405	526	299	318	10,996
Miscellaneous	205	364	94	41	20	21	745
Total other	<u>38,082</u>	<u>67,823</u>	<u>17,610</u>	<u>5,880</u>	<u>3,748</u>	<u>3,977</u>	<u>137,120</u>
Total expenses	<u>661,772</u>	<u>1,250,380</u>	<u>322,563</u>	<u>117,560</u>	<u>77,884</u>	<u>88,281</u>	<u>2,518,440</u>
<b>Change in Net Assets</b>	-	-	-	-	-	-	-
<b>Net Assets:</b>							
Beginning of Year	-	117,133	-	-	4,734	-	121,867
End of Year	<u>\$ -</u>	<u>\$ 117,133</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,734</u>	<u>\$ -</u>	<u>\$ 121,867</u>

(Concluded)

**NORTH PENN LEGAL SERVICES, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

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	09.339070	\$ 2,013,039	\$ -
Total U.S. Congress			<u>2,013,039</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	661,772	-
Total U.S. Department of Health and Human Services			<u>661,772</u>	<u>-</u>
<u>U.S. Department of Justice:</u>				
Passed through Pennsylvania Commission on Crime and Delinquency:				
Passed through Luzerne County:				
Violence Against Women Formula Grants	2015-VA-07-26313	16.588	7,350	-
Passed through Domestic Violence Service Center, Inc.:				
Violence Against Women Formula Grants	2012-WH-AX-0072	16.588	6,368	-
Passed through Victim's Resource Center:				
Violence Against Women Formula Grants	N/A	16.588	12,571	-
Total U.S. Department of Justice			<u>26,289</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	12,057	-
Passed through City of Bethlehem: Community Development Block Grant/ Entitlement Grants				
	2015-7	14.218	21,784	-
Passed through County of Northampton: Community Development Block Grant/ Entitlement Grants				
	N/A	14.218	28,761	-
Passed through City of Allentown: Community Development Block Grant/ Entitlement Grants				
	N/A	14.218	25,516	-
Passed through City of Easton: Community Development Block Grant/ Entitlement Grants				
	N/A	14.218	10,685	-
Subtotal CFDA Number 14.218			<u>86,746</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>98,803</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,799,903</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, 2016

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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).

Such expenditures are recognized following, as applicable, either the Legal Services Corporation Regulations (45 CFR Part 1630), the cost principles in U.S. Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, 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, 2016

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, 2016, 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 6, 2016.

**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 6, 2016

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, 2016. 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.

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

***Basis for Qualified Opinion on CFDA Number 09.339070 LSC Program***

As described in the accompanying schedule of findings and questioned costs, NPLS did not comply with requirements regarding CFDA Number 09.339070 LSC Program as described in Finding 2016-002 for Reporting. 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 09.339070 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, 2016.

***Other Matters***

NPLS's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NPLS's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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



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

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 question costs as Finding 2016-002 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2016-001 to be a significant deficiency.

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

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 6, 2016

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

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

YEAR ENDED JUNE 30, 2016

### **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2015-001 – Special Tests and Provisions**

U.S. Congress via Legal Services Corporation (CFDA #09.339070)

*Statement of Condition:* During our audit, we noted that one out of sixty case files selected for testing, which was a case handled by a private attorney as part of the required private attorney involvement, was not able to be located by North Penn Legal Services, Inc. (NPLS). A print-out of the intake form and case notes from the case management system were provided by NPLS in order to support the eligibility of the client. There was no evidence that case oversight and follow-up was performed in order to ensure timely disposition of the case. The case file was opened in 2008, but was not closed until 2015 after contacting the private attorney that initially handled the case.

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

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

### 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)  
09.339070

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, 2016

III. Findings and questioned costs for federal awards.

### **Finding 2016-001 – Eligibility**

U.S. Congress via Legal Services Corporation (CFDA #09.339070)

*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.

*Criteria:* The Code of Federal Regulations (45 CFR 1611.3d) requires a Legal Services Corporation (LSC) recipient to establish reasonable asset ceilings for individuals and households as part of its financial eligibility policies. The LSC recipient's policies may provide authority for waiver of its asset ceilings for specific applicants under unusual circumstances and when approved by the recipient's Executive Director, or his/her designee. When the asset ceiling is waived, the recipient shall record the reasons for such waiver and shall keep such records as are necessary to inform LSC of the reasons for such waiver.

*Cause:* In addition to having assets over the established asset ceiling, the applicant was also an out-of-state applicant, which is an infrequent occurrence. This warranted two different funding source codes within the case management system. When the intake form was printed for the case file, only the coding denoting the applicant was from out-of-state was visible. As a result, during review of case file intake forms, this case was overlooked as being a case with an applicant having assets over the asset ceiling, and was erroneously charged to LSC funding within the case management system. Additionally, an intake worker in one of North Penn Legal Services, Inc.'s office did not fully understand the LSC requirements surrounding eligibility of applicants with assets exceeding the established asset ceiling.

*Effect of the Condition:* The client was not financially eligible to receive legal services supported with LSC funding.

*Recommendation:* We recommend that NPLS re-evaluate its procedures for intake coding and review to ensure that only LSC eligible cases are charged to LSC funding.

*Views of Responsible Officials:* See corrective action plan.

# NORTH PENN LEGAL SERVICES, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

### **Finding 2016-002 – Reporting**

U.S. Congress via Legal Services Corporation (CFDA #09.339070)

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

*Criteria:* The Code of Federal Regulations (45 CFR 1644.4a) requires LSC recipients to disclose certain required information to the public and to LSC on cases filed in court by their attorneys. The following information is required to be reported: (1) name and full address of each party to a case; (2) the cause of action; (3) the name and full address of the court where the case is filed; and (4) the case number assigned to the case by the court.

*Cause:* NPLS converted to a new case management system in June 2016, and a mapping error occurred during the conversion. NPLS contacted the software vendor regarding the mapping issue, but a correction of the error was not able to be made prior to the due date of the semi-annual case disclosure report.

*Effect of the Condition:* The semi-annual case disclosure report was submitted to LSC without the names and addresses of the defendants of the cases reported on the report for the period of January 1, 2016 through June 30, 2016.

*Recommendation:* We recommend that subsequent to any future case management system software conversions or upgrades, NPLS verify that all required reports are able to be produced, and ensure that any issues with the production of those reports be resolved in advance of the report due date. In a situation where the issues cannot be resolved timely, we recommend that NPLS utilize information from the previous case management system, if possible, in order to avoid submitting reports with missing information to LSC.

*Views of Responsible Officials:* See corrective action plan.