

**CENTRAL MINNESOTA
LEGAL SERVICES
AUDITED FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Central Minnesota Legal Services
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Central Minnesota Legal Services (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for 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 Central Minnesota Legal Services as of December 31, 2018 and 2017, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of support, revenue and expenses and change in net assets for LSC funds for the years ended December 31, 2018 and 2017, and the schedule of excess carryover fund balance for the year ended December 31, 2018. The accompanying schedules of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 March 30, 2019, on our consideration of Central Minnesota Legal Services' 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 the effectiveness of Central Minnesota Legal Services' 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 Central Minnesota Legal Services' internal control over financial reporting and compliance.

Harrington Langen & Associates

March 30, 2019

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,392,361	\$ 1,420,776
Client trust accounts	100	-
Certificate of deposit	249,591	250,085
Grants receivable	1,744,413	1,696,509
Prepaid expenses	<u>28,020</u>	<u>15,754</u>
TOTAL CURRENT ASSETS	<u>3,414,485</u>	<u>3,383,124</u>
PROPERTY AND EQUIPMENT, at cost	95,790	57,529
Less: accumulated depreciation	<u>(47,002)</u>	<u>(37,343)</u>
TOTAL PROPERTY AND EQUIPMENT, net	<u>48,788</u>	<u>20,186</u>
TOTAL ASSETS	<u><u>\$ 3,463,273</u></u>	<u><u>\$ 3,403,310</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 113,637	\$ 81,560
Accrued expenses	77,288	59,734
Funds held for others	<u>100</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>191,025</u>	<u>141,294</u>
 NET ASSETS		
Net assets without donor restrictions	1,668,513	1,583,029
Net assets with donor restrictions	<u>1,603,735</u>	<u>1,678,987</u>
TOTAL NET ASSETS	<u>3,272,248</u>	<u>3,262,016</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,463,273</u></u>	<u><u>\$ 3,403,310</u></u>

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
SUPPORT AND REVENUE				
Grants and contributions	\$ 4,034	\$ -	\$ 4,034	\$ 72,651
Government grants	785,235	1,584,128	2,369,363	2,244,740
Donated services	244,342	-	244,342	306,584
Attorney fee awards	5,165	-	5,165	-
Interest	1,733	-	1,733	1,850
Loss on disposal of assets	-	-	-	(284)
Net assets released from restrictions	1,659,380	(1,659,380)	-	-
TOTAL SUPPORT AND REVENUE	2,699,889	(75,252)	2,624,637	2,625,541
EXPENSES				
Program services	2,467,366	-	2,467,366	2,523,270
Management and general	147,039	-	147,039	133,804
TOTAL EXPENSES	2,614,405	-	2,614,405	2,657,074
CHANGE IN NET ASSETS	85,484	(75,252)	10,232	(31,533)
NET ASSETS, BEGINNING	1,583,029	1,678,987	3,262,016	3,293,549
NET ASSETS, ENDING	\$ 1,668,513	\$ 1,603,735	\$ 3,272,248	\$ 3,262,016

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 56,151	\$ 16,500	\$ 72,651
Government grants	647,646	1,597,094	2,244,740
Donated services	306,584	-	306,584
Interest	-	1,850	1,850
Loss on disposal of assets	-	(284)	(284)
Net assets released from restrictions	<u>1,767,186</u>	<u>(1,767,186)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>2,777,567</u>	<u>(152,026)</u>	<u>2,625,541</u>
EXPENSES			
Program services	2,523,270	-	2,523,270
Management and general	<u>133,804</u>	<u>-</u>	<u>133,804</u>
TOTAL EXPENSES	<u>2,657,074</u>	<u>-</u>	<u>2,657,074</u>
CHANGE IN NET ASSETS	120,493	(152,026)	(31,533)
NET ASSETS, BEGINNING	<u>1,462,536</u>	<u>1,831,013</u>	<u>3,293,549</u>
NET ASSETS, ENDING	<u><u>\$ 1,583,029</u></u>	<u><u>\$ 1,678,987</u></u>	<u><u>\$ 3,262,016</u></u>

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,232	\$ (31,533)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,659	6,982
Interest earned (reinvested)	394	(453)
Loss on disposal of assets	-	284
Decrease in:		
Grants receivable	(47,904)	37,453
Prepaid expenses	(12,266)	5,227
Increase (decrease) in:		
Accounts payable	32,077	(5,453)
Accrued expenses	17,554	(1,020)
Funds held for others	100	-
Unearned grant revenue	-	(150)
	9,846	11,337
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,846	11,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(38,261)	(2,337)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,415)	9,000
CASH AND CASH EQUIVALENTS, BEGINNING	1,420,776	1,411,776
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,392,361	\$ 1,420,776

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Total 2018</u>	<u>Total 2017</u>
EXPENSES				
Personnel salaries				
Lawyers	\$ 843,271	\$ 47,475	\$ 890,746	\$ 901,245
Non-lawyers	<u>475,410</u>	<u>28,083</u>	<u>503,493</u>	<u>477,534</u>
	1,318,681	75,558	1,394,239	1,378,779
Payroll taxes	109,116	5,634	114,750	120,088
Employee benefits	<u>297,947</u>	<u>22,096</u>	<u>320,043</u>	<u>297,536</u>
Total personnel costs	1,725,744	103,288	1,829,032	1,796,403
Donated services	244,342	-	244,342	306,584
Equipment and library	70,142	938	71,080	72,323
Training	8,517	7	8,524	16,534
Insurance	11,337	255	11,592	11,925
Contract services	159,069	37,146	196,215	201,664
Travel	31,717	572	32,289	32,451
Space and occupancy	154,246	3,455	157,701	148,687
Office expenses	38,352	790	39,142	52,232
Litigation costs	10,172	-	10,172	6,198
Mandated license fees	3,394	-	3,394	2,752
Other direct expenses	675	588	1,263	2,339
Depreciation	<u>9,659</u>	<u>-</u>	<u>9,659</u>	<u>6,982</u>
TOTAL EXPENSES	<u><u>\$ 2,467,366</u></u>	<u><u>\$ 147,039</u></u>	<u><u>\$ 2,614,405</u></u>	<u><u>\$ 2,657,074</u></u>

CENTRAL MINNESOTA LEGAL SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
EXPENSES			
Personnel salaries			
Lawyers	\$ 856,984	\$ 44,261	\$ 901,245
Non-lawyers	450,143	27,391	477,534
	<u>1,307,127</u>	<u>71,652</u>	<u>1,378,779</u>
Payroll taxes	108,105	11,983	120,088
Employee benefits	282,255	15,281	297,536
	<u>1,697,487</u>	<u>98,916</u>	<u>1,796,403</u>
Donated services	306,584	-	306,584
Equipment and library	71,362	961	72,323
Training	15,695	839	16,534
Insurance	11,668	257	11,925
Contract services	175,047	26,617	201,664
Travel	31,276	1,175	32,451
Space and occupancy	145,543	3,144	148,687
Office expenses	50,829	1,403	52,232
Litigation costs	6,198	-	6,198
Mandated license fees	2,752	-	2,752
Other direct expenses	1,847	492	2,339
Depreciation	6,982	-	6,982
	<u>6,982</u>	<u>-</u>	<u>6,982</u>
TOTAL EXPENSES	<u><u>\$ 2,523,270</u></u>	<u><u>\$ 133,804</u></u>	<u><u>\$ 2,657,074</u></u>

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

Central Minnesota Legal Services (CMLS or the Organization) is a non-profit corporation organized for the purpose of providing civil legal assistance to low income persons who would otherwise be unable to afford legal counsel throughout Central Minnesota.

A significant portion of CMLS' operations is funded through grants from Legal Services Corporation (LSC), a private, non-profit corporation established by Congress in 1974 to assure equal access to justice under the law for all Americans. It is headed by a bipartisan Board of Directors appointed by the President and confirmed by the Senate.

Basis of Presentation:

The financial statements of CMLS have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require CMLS to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Contributions:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued):

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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 certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Organization considers cash and investment securities with an original maturity of three months or less to be cash and cash equivalents.

Certificate of Deposit:

Certificates of deposit are carried at cost plus accrued interest. Certificates with an original maturity of three months or less are included in cash and cash equivalents.

Client Trust Accounts:

The Organization maintains a separate trust account for clients' payments of fees or court-awarded settlements. These amounts are not available for general operating expenses. As of December 31, 2018 and 2017, the Organization held funds in the client trust accounts of \$100 and \$0, respectively.

Allowance for Doubtful Accounts:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. At December 31, 2018 and 2017, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Property and Equipment:

Property and equipment consists of furniture, fixtures, equipment, and software, which are recorded at cost. Depreciation expense is recognized over the estimated useful lives of the assets from three to ten years using the straight-line method. Depreciation expense was \$9,659 and \$6,982, for the years ended December 31, 2018 and 2017, respectively.

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued):

Property and equipment acquired with LSC funds are considered to be owned by CMLS while used in the program or in future authorized programs. However, LSC has a reversionary interest in these assets. In addition, LSC has the right to determine the use of any proceeds from the sale of assets originally purchased with its funds. As of December 31, 2018 and 2017, the Organization's net book value of these assets is \$17,855 and \$20,186, respectively.

Grants and Contracts:

CMLS recognizes grant revenue from LSC as a donor with restricted contributions. CMLS may retain unexpended funds for use in future periods provided expenses incurred are in compliance with the specified terms of the grant. LSC may reduce future support to the extent the current year's unexpended funds are in excess of 10% of current year support from LSC. As of December 31, 2018 and 2017, the Organization's unexpended LSC support did not exceed 10% of the award.

Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, CMLS will record such disallowance at the time a final assessment is made.

Functional Allocation of Expenses:

Salaries and related expenses are allocated based on time records, job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management. Fundraising costs are immaterial and are included with management and general expenses.

Donated Services:

Donated services represent services rendered by various attorneys in the CMLS service area at no charge to the Organization. The value of donated services for the years ended December 31, 2018 and 2017 is based on an estimated average fee of \$200 per hour for lawyers, which is a representative charge of the professionals rendering the service. The value of the services provided is reported as donated services revenue and expense in the financial statements.

Income Taxes:

The Organization has been granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota statutes. It is classified as an organization that is not a private foundation and charitable contributions by donors are tax deductible.

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued):

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for any uncertain position that more likely than not would not be sustained upon examination by the applicable tax authorities. The Organization is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 30, 2019, the date the financial statements were available to be issued.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncement:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CMLA has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 2. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at financial institutions located in Minneapolis, Minnesota. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2018 and 2017, the Organization had uninsured cash balances of \$0 and \$85, respectively. The uninsured cash resulted from the interest earnings on the certificate of deposit at renewal. As soon as management discovered the issue, they started the process to address it.

NOTE 3. CERTIFICATE OF DEPOSIT

At December 31, 2018 and 2017, the Organization had a certificate of deposit in the amount of \$249,591 and \$250,085, respectively. This certificate matures in May 2019 and earns interest at 0.1448%.

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 4. AVAILABILITY AND LIQUIDITY

The following represents CMLS' financial assets at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 1,392,361	\$ 1,420,776
Client trust accounts	100	-
Certificate of deposit	249,591	250,085
Grants receivable	<u>1,744,413</u>	<u>1,696,509</u>
 Total financial assets	 3,386,465	 3,367,370
 Less amounts not available to be used within one year:		
Funds held for others	100	-
Net assets with donor restrictions	1,603,735	1,678,987
Less net assets related to LSC property	<u>(17,855)</u>	<u>(20,186)</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 1,800,485</u>	 <u>\$ 1,708,569</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in certificates of deposit.

NOTE 5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Purpose Restricted:		
LSC - grant activities	\$ 1,585,880	\$ 1,642,301
LSC - property	17,855	20,186
Legal assistance to victims/survivors and their children	<u>-</u>	<u>16,500</u>
	<u>\$ 1,603,735</u>	<u>\$ 1,678,987</u>

**CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS**

NOTE 5. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors or grantors as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Purpose Restricted:		
LSC - grant activities	\$ 1,636,600	\$ 1,760,204
LSC - property	7,280	6,982
Legal assistance to victims/survivors and their children	16,500	-
	\$ 1,660,380	\$ 1,767,186

NOTE 6. SUMMARY OF FUNDING

CMLS' grant and contract activity for the years ended December 31, 2018 and 2017 consisted of grant awards from LSC in the amount of \$1,714,335 and \$1,623,247, respectively. CMLS received notification of a 2019 award of \$1,584,128 before December 31, 2018, which is included in grants receivable and net assets with donor restrictions at December 31, 2018. Additionally, CMLS had received notification of the 2018 award of \$1,594,010 before December 31, 2017, which was included in grants receivable and net assets with donor restrictions at December 31, 2017.

NOTE 7. RETIREMENT PLAN

The Organization participates in a Section 403(b) retirement savings plan (the Plan) covering all employees who meet eligibility requirements and elect to participate in the Plan. The Plan does have an employer only contribution component. To be eligible for the employer only contribution, an employee has to work one year, and if they work part-time, the contribution is prorated to the percentage of time worked. For 2018 and 2017, the employer only contribution was \$1,000 per year. The Plan also provides that eligible employees receive matching contributions of 30% of their contribution, up to a maximum of 6% of compensation. Contributions for 2018 and 2017 were \$53,321 and \$50,095, respectively.

NOTE 9. LEASED FACILITIES

CMLS leases office space at three locations that renew on an annual basis. The rental expense for the years ended December 31, 2018 and 2017 was \$157,701 and \$148,687, respectively.

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO FINANCIAL STATEMENTS

NOTE 8. CONTRACT SERVICES – VOLUNTEER ATTORNEY PROGRAMS

CMLS passes federal funds to subrecipients for the Private Bar Involvement Program. The funds provided under reimbursement contracts to the Volunteer Lawyers Network amounted to \$13,968 for 2018 and 2017. The funds provided under reimbursement contracts to the Minnesota State Bar Association and the Minnesota Legal Services Coalition amounted to \$12,454 and \$18,526, respectively, for 2017.

NOTE 10. PRIVATE ATTORNEY INVOLVEMENT

CMLS utilizes the volunteer attorney and contract methods to meet the Private Attorney Involvement condition of the LSC grant. This condition requires CMLS to utilize 12.5% of their annualized LSC grant to involve private attorneys in the delivery of legal services. During the years ended December 31, 2018 and 2017, the requirements of this condition were met. In meeting these requirements, the Organization uses private funding provided by the State of Minnesota, acting through its Legal Services Advisory Committee (LSAC), appointed by the Minnesota Supreme Court. The Organization uses this funding in direct support of its Private Attorney Involvement Plan. The following schedule reconciles the amount of Private Attorney Involvement expenses reported in the supplemental schedule to these financial statements and the amount reported in the Summary Report Form (SRF) submitted to LSC for the year ended December 31, 2018.

	<u>LSC</u>	<u>LSAC</u>	<u>Total</u>
Personnel Salaries			
Lawyers	\$ 26,159	\$ 44,600	\$ 70,759
Non-lawyers	25,954	57,730	83,684
Payroll taxes	5,853	8,716	14,569
Employee benefits	10,063	17,584	27,647
Total Personnel Costs	<u>68,029</u>	<u>128,630</u>	<u>196,659</u>
Donated services	244,342	-	244,342
Equipment and library	6,751	1,080	7,831
Training	1,601	-	1,601
Insurance	1,128	-	1,128
Contract services	23,283	19,826	43,109
Travel	4,187	7,219	11,406
Space & occupancy	6,564	8,850	15,414
Office expenses	4,948	-	4,948
Litigation costs	-	355	355
Mandated license fees	252	-	252
	<u>361,085</u>	<u>165,960</u>	<u>527,045</u>
Less: Donated Services	<u>(244,342)</u>	<u>-</u>	<u>(244,342)</u>
Total PAI Expenses, per SRF	<u>\$ 116,743</u>	<u>\$ 165,960</u>	<u>\$ 282,703</u>

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGE IN NET ASSETS FOR LSC FUNDS
For the Year Ended December 31, 2018

	2019 Award Legal Services Corporation Basic Field	Legal Services Corporation Carryover Basic Field	2018 Award Legal Services Corporation Basic Field	Total Legal Services Corporation Basic Field	2018 Award Private Attorney Involvement	Equipment	Total
SUPPORT AND REVENUE							
Grants and Contracts							
Legal Services Corporation	\$ 1,584,128	\$ -	\$ 120,325	\$ 1,704,453	\$ -	\$ -	\$ 1,704,453
Attorney fee awards	-	-	5,165	5,165	-	-	5,165
Interest income	-	-	1,733	1,733	-	-	1,733
Donated services	-	-	-	-	244,342	-	244,342
Net assets released from restrictions Legal Services Corporation	-	48,291	1,470,566	1,518,857	116,743	7,280	1,642,880
TOTAL SUPPORT AND REVENUE	1,584,128	48,291	1,597,789	3,230,208	361,085	7,280	3,598,573
EXPENSES							
Personnel salaries							
Lawyers	-	18,375	607,976	626,351	26,159	-	652,510
Non-lawyers	-	10,642	352,094	362,736	25,954	-	388,690
	-	29,017	960,070	989,087	52,113	-	1,041,200
Payroll taxes	-	3,198	105,809	109,007	5,743	-	114,750
Employee benefits	-	6,251	206,814	213,065	10,173	-	223,238
Total personnel costs	-	38,466	1,272,693	1,311,159	68,029	-	1,379,188
Donated services	-	-	-	-	244,342	-	244,342
Equipment and library	-	1,661	54,964	56,625	6,751	-	63,376
Training	-	189	6,261	6,450	1,601	-	8,051
Insurance	-	301	9,972	10,273	1,128	-	11,401
Contract services	-	2,321	76,778	79,099	23,283	-	102,382
Travel	-	551	18,238	18,789	4,187	-	22,976
Space and occupancy	-	3,797	125,619	129,416	6,564	-	135,980
Office expenses	-	728	24,106	24,834	4,948	-	29,782
Litigation costs	-	192	6,336	6,528	-	-	6,528
Mandated license fees	-	85	2,805	2,890	252	-	3,142
Other direct expenses	-	-	17	17	-	-	17
Depreciation	-	-	-	-	-	7,280	7,280
TOTAL EXPENSES	-	48,291	1,597,789	1,646,080	361,085	7,280	2,014,445
CHANGE IN NET ASSETS	1,584,128	-	-	1,584,128	-	-	1,584,128
Less: equipment purchases	-	-	(4,949)	(4,949)	-	4,949	-
NET ASSETS, BEGINNING	-	48,291	1,594,010	1,642,301	-	20,186	1,662,487
NET ASSETS TRANSFERRED	-	-	(116,743)	(116,743)	116,743	-	-
NET ASSETS RELEASED	-	(48,291)	(1,470,566)	(1,518,857)	(116,743)	(7,280)	(1,642,880)
NET ASSETS, ENDING	\$ 1,584,128	\$ -	\$ 1,752	\$ 1,585,880	\$ -	\$ 17,855	\$ 1,603,735

See independent auditor's report
regarding supplemental information

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGE IN NET ASSETS FOR LSC FUNDS
For the Year Ended December 31, 2017

	2018 Award Legal Services Corporation Basic Field	Legal Services Corporation Carryover Basic Field	2017 Award Legal Services Corporation Basic Field	Total Legal Services Corporation Basic Field	2017 Award Private Attorney Corporation Involvement	Other Legal Services Corporation Grants	Equipment	Total
SUPPORT AND REVENUE								
Grants and Contracts								
Legal Services Corporation	\$ 1,594,010	\$ -	\$ 3,084	\$ 1,597,094	\$ -	\$ 15,400	\$ -	\$ 1,612,494
Interest income	-	-	1,850	1,850	-	-	-	1,850
Other	-	-	-	-	-	-	(284)	(284)
Donated services	-	-	-	-	306,584	-	-	306,584
Net assets released from restrictions Legal Services Corporation	-	185,735	1,407,781	1,593,516	166,688	-	6,982	1,767,186
TOTAL SUPPORT AND REVENUE	1,594,010	185,735	1,412,715	3,192,460	473,272	15,400	6,698	3,687,830
EXPENSES								
Personnel salaries								
Lawyers	-	68,872	522,018	590,890	27,259	-	-	618,149
Non-lawyers	-	41,299	313,027	354,326	25,805	-	-	380,131
	-	110,171	835,045	945,216	53,064	-	-	998,280
Payroll taxes	-	13,253	100,452	113,705	6,383	-	-	120,088
Employee benefits	-	20,526	155,581	176,107	16,121	-	-	192,228
Total personnel costs	-	143,950	1,091,078	1,235,028	75,568	-	-	1,310,596
Donated services	-	-	-	-	306,584	-	-	306,584
Equipment and library	-	7,045	53,400	60,445	7,620	-	-	68,065
Training	-	1,654	12,539	14,193	1,447	-	-	15,640
Insurance	-	1,201	9,103	10,304	1,373	-	-	11,677
Contract services	-	9,523	72,178	81,701	59,916	15,400	-	157,017
Travel	-	2,603	19,733	22,336	2,548	-	-	24,884
Space and occupancy	-	14,745	111,756	126,501	12,062	-	-	138,563
Office expenses	-	4,147	31,434	35,581	5,175	-	-	40,756
Litigation costs	-	462	3,507	3,969	589	-	-	4,558
Mandated license fees	-	267	2,017	2,284	252	-	-	2,536
Other direct expenses	-	138	1,036	1,174	138	-	-	1,312
Depreciation	-	-	-	-	-	-	6,982	6,982
TOTAL EXPENSES	-	185,735	1,407,781	1,593,516	473,272	15,400	6,982	2,089,170
CHANGE IN NET ASSETS	1,594,010	-	4,934	1,598,944	-	-	(284)	1,598,660
Less: equipment purchases	-	-	(2,337)	(2,337)	-	-	2,337	-
NET ASSETS, BEGINNING	-	185,735	1,620,163	1,805,898	-	-	25,115	1,831,013
NET ASSETS TRANSFERRED	-	-	(166,688)	(166,688)	166,688	-	-	-
NET ASSETS RELEASED	-	(185,735)	(1,407,781)	(1,593,516)	(166,688)	-	(6,982)	(1,767,186)
NET ASSETS, ENDING	\$ 1,594,010	\$ -	\$ 48,291	\$ 1,642,301	\$ -	\$ -	\$ 20,186	\$ 1,662,487

See independent auditor's report
regarding supplemental information

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF EXCESS CARRYOVER FUND BALANCE
LEGAL SERVICES CORPORATION
For the Year Ended December 31, 2018

Legal Services Corporation Grant Support	\$ 1,714,335	
Attorney fee awards	5,165	
Interest income	1,733	
		1,721,233
EXPENSES:		
Basic field	1,646,080	
Private bar involvement	116,743	
Property acquisition	4,949	
		1,767,772
 CHANGE IN NET ASSETS		 (46,539)
 NET ASSETS, BEGINNING		 48,291
 NET ASSETS TRANSFERRED		 -
 NET ASSETS, ENDING		 1,752
 10% of Legal Services Corporation support		 172,123
 Legal Services Corporation net assets subject to recapture		 \$ (170,371)

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Nichole Fairbanks, CPA
Jesse Fraley, CPA
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**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***

To the Board of Directors
Central Minnesota Legal Services
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Central Minnesota Legal Services (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Minnesota Legal Services' 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 Central Minnesota Legal Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies and listed as items 2018-1 and 2018-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Minnesota Legal Services' 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*.

Central Minnesota Legal Services' Response to Findings

Central Minnesota Legal Services' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Central Minnesota Legal Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Langer & Associates

March 30, 2019

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors
Central Minnesota Legal Services
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Central Minnesota Legal Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on each of Central Minnesota Legal Services' major federal programs for the year ended December 31, 2018. Central Minnesota Legal Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Central Minnesota Legal Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Compliance Supplement for Audits of LSC Recipients*. Those standards, the Uniform Guidance, and the *LSC Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central Minnesota Legal Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Central Minnesota Legal Services' compliance.

Opinion on Each Major Federal Program

In our opinion, Central Minnesota Legal Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Central Minnesota Legal Services 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 Central Minnesota Legal Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the LSC *Audit Guide for Recipients and Auditors*, 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 Central Minnesota Legal Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the LSC *Audit Guide for Recipients and Auditors*. Accordingly, this report is not suitable for any other purpose.

Harrington Lange & Associates
March 30, 2019

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

<u>Federal Agency / Program</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Subrecipients</u>	<u>2018 Expenditures</u>
Legal Services Corporation:				
2017 Operating Grant Carryover	09.524020		\$ -	\$ 48,291
2018 Operating Grant	09.524020		<u>13,968</u>	<u>1,719,481</u>
Total Legal Services Corporation			<u>13,968</u>	<u>1,767,772</u>
U.S. Department of Health and Human Services:				
Pass through programs from:				
Minnesota Department of Human Services				
Grants to States for Access and Visitation	93.597	GRK%85679	<u>-</u>	<u>41,468</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>41,468</u>
U.S. Department of Justice:				
Pass through programs from:				
Mid-Minnesota Legal Assistance				
Legal Assistance for Victims Program	16.524	2011-WL-AX-0012	<u>-</u>	<u>62,851</u>
Total Expenditures of Federal Awards			<u>\$ 13,968</u>	<u>\$ 1,872,091</u>

CENTRAL MINNESOTA LEGAL SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Central Minnesota Legal Services under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Central Minnesota Legal Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Central Minnesota Legal Services.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Central Minnesota Legal Services has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018

Section I—Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified? X yes ___ none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified? ___ yes X none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ___ yes X no

Identification of major programs:

CFDA Number(s):
09.524020

Name of Federal Program or Cluster:
Legal Services Corporation

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

Auditee qualified as low-risk auditee? ___ Yes X No

CENTRAL MINNESOTA LEGAL SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2018

Section II—Financial Statement Audit Finding

2018-1 Lack of Segregation of Duties

Condition: Central Minnesota Legal Services has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of appropriate segregation of duties.

Criteria: Internal controls should provide a good system of internal accounting controls that contemplate an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect: The lack of segregation of duties may not provide an effective system of internal accounting control necessary to prevent and detect errors and irregularities.

Recommendation: Management should provide close supervision and review of accounting policies and procedures and financial information. The Board of Directors should monitor the activities of the Organization by receiving interim financial statements and provide oversight to the financial reporting process.

Management Response: Management will continue to implement segregation of duties to the extent possible. Management and the Board of Directors will continue to provide oversight to the financial reporting process.

2018-2 Financial Reporting Process

Condition: Like many similarly sized organizations, Central Minnesota Legal Services has requested assistance from us, the auditors, with drafting financial statements and the related notes.

Criteria: Internal controls should provide a good system of internal accounting controls that includes the preparation of the financial statements and footnotes.

Effect: This control deficiency increases the possibility that errors and irregularities in the presentation of the financial statements and footnotes may not be detected on a timely basis.

Recommendation: The outsourcing of these services is not unusual to organizations of this size and is a result of management's cost-benefit decision to rely on our accounting expertise rather than incurring this internal resource cost. Management and the Board of Directors should continue to monitor the activities of the Organization by reviewing the financial statements and related notes and providing oversight to the financial reporting process.

Management Response: Management is aware of the situation, but a cost-benefit analysis of the issue does not currently support the allocation of additional employees or resources at this time. Certain other safeguards are currently maintained (management oversight and review of draft financial statements) which provide satisfactory mitigation of the issue.

Section III—Findings and Questioned Costs-Major Federal Award Programs Audit

No matters were reported.

Section IV—Prior Year Findings and Questioned Costs

No prior year audit findings.