

**Audited Financial Statements,
Supplementary Information,
and Compliance Reports**

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2017 and 2016**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2017 and 2016

Audited Financial Statements

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Joseph L. Hill, Jr.

Independent Auditors' Report

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Legal Aid of North Carolina, Inc. (LANC), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid of North Carolina, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report--Continued

Other Matters

2016 Financial Statements

The financial statements of LANC for the year ended December 31, 2016, were audited by other auditors whose report dated April 4, 2017 expressed an unmodified opinion.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal, state, and other awards for the year ended December 31, 2017, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying statement of activities for LSC grants, statement of private attorney involvement expenses and summary statement of support, revenue, expenses and changes in net assets (by funding source) as of or for the year ending December 31, 2017, are also presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2018 on our consideration of LANC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LANC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LANC's internal control over financial reporting and compliance.

Romo, Wiggins + Company, L.L.P.

Raleigh, North Carolina
April 27, 2018

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,160,177	\$ 2,633,390
Client escrow funds	23,286	32,334
Receivables:		
Grants and contracts	1,463,134	1,785,025
Sales tax	19,235	101,926
Other	13,588	2,179
Prepaid expenses	17,268	4,052
Deposits	46,895	46,528
Other	0	365
TOTAL CURRENT ASSETS	<u>5,743,583</u>	<u>4,605,799</u>
PROPERTY AND EQUIPMENT		
Land and buildings	2,086,995	2,086,995
Building improvements	572,997	543,501
Leasehold improvements	154,355	149,255
Equipment and furniture	886,497	935,477
Vehicles	178,495	191,854
Website	138,530	138,530
Construction in progress	27,500	27,500
	<u>4,045,369</u>	<u>4,073,112</u>
Accumulated depreciation	<u>(2,480,054)</u>	<u>(2,365,278)</u>
	<u>1,565,315</u>	<u>1,707,834</u>
TOTAL ASSETS	<u><u>7,308,898</u></u>	<u><u>6,313,633</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	150,430	228,355
Client deposits	23,286	32,334
Accrued vacation	676,362	651,032
Other accrued liabilities	858,663	782,417
Subcontracts/subgrants payable	333,755	436,982
Deferred support/ revenue	417,090	484
TOTAL CURRENT LIABILITIES	<u>2,459,586</u>	<u>2,131,604</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
NET ASSETS		
Unrestricted:		
Property and equipment	1,361,393	1,295,776
Other unrestricted net assets	1,711,151	1,295,842
	<u>3,072,544</u>	<u>2,591,618</u>
Temporarily restricted:		
Property and equipment	203,922	412,058
Other temporarily restricted net assets	1,572,846	1,178,353
	<u>1,776,768</u>	<u>1,590,411</u>
TOTAL NET ASSETS	<u>4,849,312</u>	<u>4,182,029</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,308,898</u>	<u>\$ 6,313,633</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Net Asset Classes</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 11,605,565	\$ 11,605,565
Non-LSC grants and contracts	738,837	11,471,872	12,210,709
Matching assistance	272,197	451,683	723,880
Donations and contributions:			
In-kind	33,713		33,713
Other	705,396	9,955	715,351
Donated services	3,121,718		3,121,718
Attorney fees / damages		40,745	40,745
Interest income		51,974	51,974
Rental income		235,813	235,813
Net gain on disposal of property and equipment		5,966	5,966
Other revenue and support	9,989	36,375	46,364
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>23,723,591</u>	<u>(23,723,591)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	28,605,441	186,357	28,791,798
EXPENSES			
Program services:			
LSC	9,770,864		9,770,864
IOLTA	1,692,931		1,692,931
State grants	710,127		710,127
Title III	373,863		373,863
Family Violence	4,690,761		4,690,761
United Way	400,100		400,100
Other	4,791,956		4,791,956
General	311,561		311,561
Property	110,753		110,753
Donated services	<u>3,199,868</u>		<u>3,199,868</u>
	26,052,784	<u>0</u>	26,052,784
Support services:			
Management and general	1,930,850		1,930,850
Fundraising	<u>140,881</u>		<u>140,881</u>
	<u>2,071,731</u>	<u>0</u>	<u>2,071,731</u>
TOTAL EXPENSES	28,124,515	0	28,124,515
CHANGE IN NET ASSETS	480,926	186,357	667,283
Net assets, beginning of year	<u>2,591,618</u>	<u>1,590,411</u>	<u>4,182,029</u>
NET ASSETS, END OF YEAR	\$ <u>3,072,544</u>	\$ <u>1,776,768</u>	\$ <u>4,849,312</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Net Asset Classes</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 11,605,563	\$ 11,605,563
Non-LSC grants and contracts	810,116	10,340,706	11,150,822
Matching assistance	126,282	217,842	344,124
Donations and contributions:			
In-kind	34,034		34,034
Other	530,156	6,993	537,149
Donated services	2,868,720		2,868,720
Attorney fees / damages		73,907	73,907
Interest income		30,215	30,215
Rental income		252,335	252,335
Other revenue and support	14,185	68,276	82,461
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>22,056,314</u>	<u>(22,056,314)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>26,439,807</u>	<u>539,523</u>	<u>26,979,330</u>
EXPENSES			
Program services:			
LSC	9,897,610		9,897,610
IOLTA	1,227,558		1,227,558
State grants	1,309,005		1,309,005
Title III	365,049		365,049
Family Violence	2,399,894		2,399,894
United Way	435,012		435,012
Other	5,076,895		5,076,895
General	340,975		340,975
Property	105,861		105,861
Donated services	<u>2,944,208</u>		<u>2,944,208</u>
	<u>24,102,067</u>	<u>0</u>	<u>24,102,067</u>
Support services:			
Management and general	1,846,611		1,846,611
Fundraising	<u>185,142</u>		<u>185,142</u>
	<u>2,031,753</u>	<u>0</u>	<u>2,031,753</u>
TOTAL EXPENSES	<u>26,133,820</u>	<u>0</u>	<u>26,133,820</u>
CHANGE IN NET ASSETS	305,987	539,523	845,510
Net assets, beginning of year	<u>2,285,631</u>	<u>1,050,888</u>	<u>3,336,519</u>
NET ASSETS, END OF YEAR	<u>\$ 2,591,618</u>	<u>\$ 1,590,411</u>	<u>\$ 4,182,029</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
PERSONNEL:			
Salaries			
Attorneys	\$ 8,506,596	\$	\$ 8,506,596
Paralegals	1,715,855		1,715,855
Management		400,320	400,320
Support	1,430,385	58,025	1,488,410
Other	144,037	661,701	805,738
Accrued leave	20,525	4,805	25,330
Fringe benefits	4,397,983	457,166	4,855,149
Total personnel	<u>16,215,381</u>	<u>1,582,017</u>	<u>17,797,398</u>
OTHER EXPENSES:			
Space	1,161,658	197,759	1,359,417
Equipment	93,835	7,724	101,559
Software maintenance and support	163,948	16,453	180,401
Office supplies/equipment, printing and postage	297,756	30,867	328,623
Telephone and internet costs	449,564	12,833	462,397
Travel	211,181	11,476	222,657
Training	168,820	32,384	201,204
Library expense	161,516	11,167	172,683
General insurance	108,573	9,040	117,613
Dues and fees	126,384	2,342	128,726
Audit		49,500	49,500
Litigation	43,511		43,511
Contract services, clients:			
Paid to private attorneys	429,396		429,396
Pro bono/reduced fee services	194,047		194,047
Pro bono	3,199,868		3,199,868
Contract services, program	190,552	54,800	245,352
Subgrants / subcontracts awarded	1,959,810		1,959,810
Other	648,137	46,436	694,573
Depreciation	103,719	125,027	228,746
Loss on disposal of equipment	7,034		7,034
Allocation of indirect costs	118,094	(118,094)	0
Total other expenses	<u>9,837,403</u>	<u>489,714</u>	<u>10,327,117</u>
TOTAL EXPENSES	<u>\$ 26,052,784</u>	<u>\$ 2,071,731</u>	<u>\$ 28,124,515</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2016

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
PERSONNEL:			
Salaries			
Attorneys	\$ 7,782,941	\$	\$ 7,782,941
Paralegals	1,581,502		1,581,502
Management		395,200	395,200
Support	1,191,816	38,042	1,229,858
Other	145,719	622,772	768,491
Accrued leave	76,509	8,691	85,200
Fringe benefits	4,118,450	435,968	4,554,418
Total personnel	<u>14,896,937</u>	<u>1,500,673</u>	<u>16,397,610</u>
OTHER EXPENSES:			
Space	1,084,455	196,352	1,280,807
Equipment	85,078	4,833	89,911
Software maintenance and support	102,693	14,769	117,462
Office supplies/equipment, printing and postage	350,494	27,200	377,694
Telephone and internet costs	395,164	22,886	418,050
Travel	181,221	10,387	191,608
Training	251,270	24,392	275,662
Library expense	170,730	7,570	178,300
General insurance	102,924	7,611	110,535
Dues and fees	109,364	29,400	138,764
Audit		49,751	49,751
Litigation	49,200		49,200
Contract services, clients:			
Paid to private attorneys	467,219		467,219
Pro bono/reduced fee services	50,720		50,720
Pro bono	2,944,208		2,944,208
Contract services, program	124,356	39,434	163,790
Subgrants / subcontracts awarded	2,122,097		2,122,097
Other	419,886	48,577	468,463
Depreciation	102,685	136,108	238,793
Loss on disposal of equipment	3,176		3,176
Allocation of indirect costs	88,190	(88,190)	0
Total other expenses	<u>9,205,130</u>	<u>531,080</u>	<u>9,736,210</u>
TOTAL EXPENSES	<u>\$ 24,102,067</u>	<u>\$ 2,031,753</u>	<u>\$ 26,133,820</u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 667,283	\$ 845,510
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	228,746	238,793
Net loss on disposal of property and equipment	1,068	3,176
Decrease (increase) in operating assets:		
Receivables	393,173	(382,905)
Prepaid expenses	(13,216)	(2,852)
Deposits	(367)	(9,511)
Other	365	1,371
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	23,651	524,021
Grants payable	(103,227)	(10,337)
Deferred support	416,606	15
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,614,082</u>	<u>1,207,281</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	5,966	0
Purchases of property and equipment	(93,261)	(163,960)
NET CASH USED IN INVESTING ACTIVITIES	<u>(87,295)</u>	<u>(163,960)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,526,787	1,043,321
Cash and cash equivalents, beginning of year	<u>2,633,390</u>	<u>1,590,069</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,160,177</u>	<u>\$ 2,633,390</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 0	\$ 0

See independent auditors' report and notes to financial statements.

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2017 and 2016

NOTE A -- THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Organization: Legal Aid of North Carolina, Inc. (LANC) is a nonprofit corporation that provides statewide free legal services in civil matters to low-income people in order to ensure access to justice and to remove legal barriers to economic opportunity. LANC receives significant funding from Legal Services Corporation (LSC). LSC is a nonprofit corporation established by the United States Congress to administer the federal government's legal assistance program.

Net Asset Presentation: The accompanying financial statements are prepared in accordance with FASB ASC 958-205, 210, 225 (prior authoritative literature: SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*) which requires presentation of a statement of financial position and a statement of activities that displays classes of net assets categorized as unrestricted, temporarily restricted, and permanently restricted and their changes during the period. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use, either as to time or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets upon expiration or satisfaction of the restriction. LANC had no permanently restricted net assets at December 31, 2017 and 2016.

Method of Accounting: The financial statements are prepared on the accrual basis of accounting.

Recognition of Support: LANC records "unconditional promises to give" in the period such promises are made and reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. Substantially all federal, state, and other grants have stipulations that require reimbursement if such funds are not spent for their intended purpose. Management considers these awards to be "conditional promises to give" and recognizes support therefrom when the possibility of not satisfying such conditions becomes remote.

Donated Services: Donated services are recorded as both a revenue and an expense (or a fixed asset) if the services either enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are valued at the fair value of such services or what LANC would have had to pay for the donated services if such services had been purchased. Donated services of LANC consist primarily of pro bono services provided by attorneys.

Donated Property and Equipment: Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, LANC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Cash Equivalents: For purposes of reporting cash flows, LANC considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2017 and 2016, cash equivalents include \$3,906,015 and \$2,539,513, respectively, held in a Short-Term Investment Fund ("STIF Account") with the State Treasurer. Depositories used by the State Treasurer for the investment of these funds must meet certain collateralization requirements. While the potential exists for under collateralization, the State Treasurer of North Carolina enforces strict standards of financial stability for each of its depositories.

Receivables: Receivables consist primarily of grant awards due from federal and state agencies. LANC has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are scheduled for funding within a year and are primarily unsecured.

Fixed Assets: Fixed assets, if purchased, are valued at cost. Contributed fixed assets are recorded at fair value at the date of donation. LSC retains an interest in assets acquired through the expenditure of its grants. Fixed asset purchases of less than \$5,000 are expensed when incurred. Depreciation is computed using the straight-line method over the useful lives of the assets which range from five to forty years.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE A -- THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES -- Continued

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fixed assets having an aggregate cost of \$121,003 and a net book value of \$7,034 were written-off in 2017 based on management’s identification of assets no longer used by LANC.

Accrued Leave: Accrued leave is based on unused leave (subject to certain limitations) at the end of the period.

Expense Allocation: LANC allocates its expenses on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among programs and support services based on estimated benefit and/or usage.

Fair Value of Financial Instruments: The carrying values of cash equivalents, receivables, accounts payable, and other accrued liabilities are considered to approximate fair value at December 31, 2017 and 2016, due to the short-term maturity of these financial instruments. Refer also to *Note L--Fair Value Measurements*.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of management’s estimates. These estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Reclassifications: Certain accounts in prior-year financial statements have been reclassified to comparative purposes to conform with the presentation in the current-year financial statements.

NOTE B -- FUNDING

Funds received from Legal Services Corporation are restricted by provisions contained within the Legal Services Corporation Act and related regulations. Reimbursement or refund of unspent funds could be required as the result of noncompliance with restrictions related thereto. However, significant discretionary authority exists with respect to the expenditure of funds. Unspent funds, subject to certain limitations, may be carried over to future periods.

<u>Grant Awards</u>	Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Basic Grant	\$ 10,917,178	\$ 10,831,210
Migrant Workers	463,965	549,931
Native Americans	<u>224,422</u>	<u>224,422</u>
	<u>\$ 11,605,565</u>	<u>\$ 11,605,563</u>

Funds received from the North Carolina State Bar Plan for Interest on Lawyers’ Trust Accounts (“IOLTA”) are restricted by provisions contained within the grant agreement. Reimbursements or refund of unspent funds could be required as the result of noncompliance with the grant agreement. Funding is subject to renewal at the expiration date of the grant period; however, IOLTA is not subject to any obligations to continue the funding of any project previously granted.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE B -- FUNDING -- Continued

The North Carolina General Assembly (“NCGA”) provides dedicated funding from court fees to LANC pursuant to the Access to Civil Justice Act (NCGS § 7A-474.1 et seq.) and the Domestic Violence Victim Assistance Act (NCGS § 7A-474.16 et seq.). These funds are delivered to the North Carolina State Bar for allocation to LANC and can only be used for eligible clients and activities as specified in both Acts. The NCGA repealed the Access to Civil Justice Act as part of the State Appropriations 2018 budget. As a result, funding for this project ended June 30, 2017. In 2017 and 2016, LANC also received state contracts (or awards) to participate in the North Carolina State Home Foreclosure Prevention Project.

LANC receives funding to support both emergency and comprehensive civil legal aid for victims of domestic violence. Through the Governor’s Crime Commission VOCA Grant, LANC provides critical emergency protective services across the state. Through VAWA grants, LANC is able to provide more comprehensive services, including ancillary relief, to victims of domestic violence. These services have helped thousands of victims across North Carolina to reduce abuse in their lives.

In 2017 and 2016, LANC received support for Navigators in Federally-facilitated and State Partnership Exchanges. Navigators provide information to consumers about available healthcare options and assist in finding the most affordable coverage that meets their needs.

The Access to Justice Campaign solicits attorneys to financially support LANC. Each field program runs their own campaign, with support and technical assistance from the Administrative Office. Approximately \$708,000 and \$530,000 was recognized as support for the years ended December 31, 2017 and 2016, respectively, as a result of these efforts.

NOTE C -- TAX STATUS

Legal Aid of North Carolina, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes. It has also been determined that LANC is not a private foundation as described in Section 509 (a) of the Internal Revenue Code. Filings for tax years 2013 and later remain open and subject to examination.

NOTE D -- EMPLOYEE BENEFIT PLANS

Defined Contribution Plan: LANC maintains a 401(k) retirement plan on behalf of its employees. Nonexcluded employees may make elective deferrals to the plan beginning on the first day of the payroll period coincident with or following their date of hire. Nonexcluded employees are eligible for employer discretionary contributions after completing one Year of Service as defined by the plan. Participating employees must complete 1,000 hours of service during plan year and be employed on the last day of the plan year to be eligible to share in the employer’s discretionary, nonelective contributions (if any) for that plan year. The LANC Board of Directors approved discretionary, nonelective contributions of \$518,540 for 2017 and \$469,952 for 2016. No matching contributions were approved for 2017 and 2016.

Partially Self-insured Medical Plan: Effective January 1, 2003, LANC put in place a partially self-insured medical plan. The plan is being administered by an outside agency and contains a “stop-loss” clause on claims paid by LANC on behalf of a participant and on behalf of participants in the aggregate. For the policy years ended December 31, 2017 and 2016, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$3,805,415 and \$2,910,779, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE D -- EMPLOYEE BENEFIT PLANS -- Continued

	<u>2017</u>	<u>2016</u>
Claims paid, net beginning of year IBNR accrual	\$ 2,471,510	\$ 2,424,593
Less: Reimbursements over stop-loss	(143,450)	(87,464)
Employee withholdings for premiums	(266,240)	(236,571)
Stop-loss premiums, network and administrative fees	435,701	403,457
IBNR accrual, December 31	<u>274,496</u>	<u>265,407</u>
	<u>\$ 2,772,017</u>	<u>\$ 2,769,422</u>

NOTE E -- LSC FUND BALANCE AND PAI RECAPTURE

LSC policy specifies that LANC may not carry forward a combined LSC fund balance at year-end in excess of 10% of total LSC annual funding, plus interest earned thereon, plus rent and reimbursement of attorney fees, without obtaining a waiver from LSC. LANC did not exceed LSC's 10% limitation at December 31, 2017 or December 31, 2016.

LSC policy requires that LANC spend an amount equal to 12.5% of their LSC Basic Field Grant on Private Attorney Involvement ("PAI") activities. PAI expenses incurred by LANC exceeded the 12.5% minimum required by the LSC grant for the years ended December 31, 2017 and 2016.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 40% and 43% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2017 and 2016, respectively. Refer also to *Note J -- Conditional Promises to Give* herein.

NOTE G -- NET ASSETS RELATED TO PROPERTY AND EQUIPMENT

Net assets related to property and equipment consisted of the following:

	December 31,	
	<u>2017</u>	<u>2016</u>
Property and equipment, net of accumulated depreciation	\$ 1,565,315	\$ 1,707,834
Less related outstanding debt	<u>0</u>	<u>0</u>
	<u>1,565,315</u>	<u>1,707,834</u>
Unrestricted net asset	1,361,393	1,295,776
Temporarily restricted net assets	<u>203,922</u>	<u>412,058</u>
	<u>\$ 1,565,315</u>	<u>\$ 1,707,834</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE H -- NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events as specified by the donors as follows:

	Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
LSC (including interest in fixed assets)	\$11,463,778	\$11,511,727
IOLTA	1,712,927	1,244,604
State of North Carolina	746,190	1,442,689
Title III	385,436	377,279
Family Violence	4,496,714	2,359,869
United Way	412,630	448,704
Other	4,297,780	4,489,799
Property:		
Depreciation and (gain) loss on disposal	235,780	241,969
LSC interest in fixed assets	<u>(27,644)</u>	<u>(60,326)</u>
	<u>\$23,723,591</u>	<u>\$22,056,314</u>

NOTE I -- TEMPORARILY RESTRICTED NET ASSETS

Grants and other contract support are reported as temporarily restricted support until the program services for which the restrictions were imposed have been satisfied. Once the restrictions have been satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are available from the following sources to provide legal assistance to economically disadvantaged persons:

	December 31,	
	<u>2017</u>	<u>2016</u>
LSC	\$ 1,012,434	\$ 531,041
IOLTA	111,328	178,896
Family Violence	6,092	8,101
United Way	0	0
Other	442,992	460,315
Property	<u>203,922</u>	<u>412,058</u>
	<u>\$ 1,776,768</u>	<u>\$ 1,590,411</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE J -- CONDITIONAL PROMISES TO GIVE

Conditional promises to give consist of the following at December 31:

Grant Awards	2017	2016
LSC	\$ 12,396,854	\$11,583,515
NC IOLTA	1,822,740	1,475,220
Statewide Navigator	1,473,585	1,530,545
Z. Smith Reynolds	400,000	400,000
Rural Community Development Initiative (RCDI)	41,038	45,824
Family Violence Prevention (FVPE)	42,025	23,425
VOCA (Statewide)	2,005,810	1,258,849
VOCA (DVAC)	197,529	187,502
VOCA BIP	219,978	217,575
VOCA Human Trafficking	167,581	217,157
VOCA Elder Abuse	299,964	331,424
DOJ Enhancing Youth Access	300,000	0
Blue Cross Blue Shield	225,000	0
DOJ MLP	0	2,301
Kate B. Reynolds	153,890	173,800
OVW/ City of High Point	159,264	249,824
HUD Fair Housing Initiatives (FHIP)	0	300,000
	<u>\$ 19,905,258</u>	<u>\$17,996,961</u>

Conditional promises to give (made by LANC) include the following at December 31, 2017: Statewide Navigator subawards of \$793,633 and Z. Smith Reynolds subawards of \$252,531.

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2017 and 2016, respectively. Refer also to Note A for LANC's policy with regard to the "Recognition of Support" and to Note B for a description of LANC's more significant funding sources.

NOTE K -- LEASES

Certain of the LANC offices lease facilities and equipment under operating leases expiring at various times through 2026. At December 31, 2017, future minimum rentals under the long-term leases are as follows:

2018	\$ 827,997
2019	413,820
2020	262,388
2021	83,582
2022	63,132
Thereafter	<u>247,995</u>
	<u>\$ 1,898,914</u>

Lease expense approximated 965,000 and \$904,000 for the years ended December 31, 2017 and 2016, respectively.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE L -- FAIR VALUE MEASUREMENTS

LANC applies U.S. generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 (prior authoritative literature: SFAS No. 157, *Fair Value Measurements*) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority.

The following represents assets measured at fair value on a recurring basis by LANC at December 31, 2017 and 2016:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
<u>December 31, 2017</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash equivalents (Note A)	\$ <u>3,906,015</u>	\$ <u>0</u>	\$ <u>3,906,015</u>	\$ <u>0</u>
<u>December 31, 2016</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash equivalents (Note A)	\$ <u>2,539,513</u>	\$ <u>0</u>	\$ <u>2,539,513</u>	\$ <u>0</u>

Level 2: The fair value of cash equivalents held in a Short-Term Investment Fund (STIF Account) with the State Treasurer is based on cost plus accrued earnings thereon. LANC believes this valuation technique is appropriate given that the State-managed portfolio is invested in highly liquid fixed income securities, consisting primarily of money market instruments and short to intermediate treasuries and agencies.

As of December 31, 2017 and 2016, LANC has no assets or liabilities classified within Levels 1 or 3 of the fair value hierarchy.

NOTE M -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 27, 2018, the date on which financial statements were available for issue.

SUPPLEMENTARY INFORMATION

Schedule of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
FEDERAL AWARDS:			
Legal Services Corporation:			
Legal Services Corporation Act	09.634032	\$ 11,485,831	*
U.S. Department of Justice:			
Legal Assistance for Victims:			
VAWA Forsyth County	16.524	63,449	
30th Judicial District DV Alliance (OVW)	16.524	9,000	
Improving Criminal Justice Responses (OVW)	16.590	90,560	
NC Department of Crime Control and Public Safety, Division of Governor's Crime Commission:			
Victims of Crime Act (VOCA) / Domestic Violence			
Prevention Initiative:			
Program expenditures	16.575	1,697,176	*
Matching assistance:			
Cash	matching	146,145	
Non-cash	matching	212,940	
		359,085	
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	246,285	
Matching assistance:			
Cash	matching	50,463	
Non-cash	matching	27,157	
		77,620	
Domestic Violence Advocacy Center (VOCA):			
Battered Immigrant Project			
Program expenditures	16.575	285,596	
Matching assistance:			
Cash	matching	62,479	
Non-cash	matching	15,900	
		78,379	
Domestic Violence Advocacy Center (VOCA):			
Human Trafficking			
Program expenditures	16.575	172,144	
Matching assistance:			
Cash	matching	51,076	
		51,076	
Domestic Violence Advocacy Center (VOCA):			
Elder Abuse			
Program expenditures	16.575	391,382	
Matching assistance:			
Cash	matching	90,347	
Non-cash	matching	16,200	
		106,547	
Domestic Violence Advocacy Center (VOCA):			
NCADV			
Program expenditures	16.575	55,940	
Domestic Violence Advocacy Center (VOCA):			
DCRC			
Program expenditures	16.575	54,562	

* Programs having compliance requirements that could have a direct and material effect on the entity's financial statements.

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

Schedule of Federal, State, and Other Awards--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
<u>FEDERAL AWARDS:</u>			
<u>U.S. Department of Health and Human Services,</u>			
<u>Centers for Medicare and Medicaid Services:</u>			
Cooperative Agreement to Support Navigators in Federally-Facilitated and State Partnership Exchanges			
Program expenditures	93.332	2,471,664 *	1,347,973
 <u>NC Department of Health and Human Services:</u>			
Division of Aging, passed through Area Agencies on Aging:			
Title III B Grants for Supportive Services and Senior Centers:			
Program expenditures	93.044	342,063	
Cash matching assistance	matching	38,000	
 Division of Social Services:			
Family Violence Prevention:			
Program expenditures	93.671	41,960	
Cash matching assistance	matching	8,387	
 <u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418	300,000	38,274
 <u>U.S. Department of Agriculture:</u>			
The Rural Community Development Initiative (RCDI):			
Program expenditures	10.446	4,785	
Non-cash matching assistance	matching	4,785	
Total Expenditures of Federal Awards		\$ 17,712,397	
Total Federal Matching Assistance		\$ 723,879	

* Programs having compliance requirements that could have a direct and material effect on the entity's financial statements.

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

Schedule of Federal, State, and Other Awards--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

Grantor/ Pass-through Grantor/ Program or Cluster Title	State and Other Awards		Amounts Provided to Subrecipients
	Receipts	Disbursements	
STATE AWARDS:			
<u>State of North Carolina:</u>			
North Carolina State Bar:			
Access to Civil Justice Act - court fees	\$ 851,900	\$ 746,190	
Domestic Violence Victim Assistance Act	952,399	952,754 *	
	<u>1,804,299</u>	<u>1,698,944</u>	
North Carolina Department of Justice:			
Medical Legal Partnership	<u>28,735</u>	<u>2,301</u>	
Total State Awards	\$ <u>1,833,034</u>	\$ <u>1,701,245</u>	
OTHER AWARDS:			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	698,150	698,150 *	
Volunteer Lawyer Program	207,480	207,480	
Mortgage Foreclosure	283,340	283,340	
Home Defense	168,750	286,666	
Community Redevelopment	185,000	166,477	
FPLC Community Redevelopment	50,000	70,815	
<u>Z. Smith Reynolds Foundation:</u>			
Home Defense Project	400,000	400,000	252,531
<u>Kate B. Reynolds Charitable Trust:</u>			
Medical Legal Partnership	<u>173,800</u>	<u>232,139</u>	
Total Other Awards	\$ <u>2,166,520</u>	\$ <u>2,345,067</u>	

* Programs having compliance requirements that could have a direct and material effect on the entity's financial statements.

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

Notes to Schedule of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of federal, state, and other awards includes the federal, state, and certain other grant activity of Legal Aid of North Carolina, Inc. Federal expenditures are presented on the accrual basis of accounting 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. Receipts and disbursements of state and other awards are presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B -- SUBGRANTS AWARDED

Of the expenditures / disbursements presented in the schedule of federal, state and other awards, LANC provided awards to subrecipients as follows:

<u>CFDA Number (if applicable)</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.418	Private Enforcement Initiatives	\$ 38,274
ZSR	Home Defense Project	252,531
93.332	Statewide Navigator	1,347,973

NOTE C -- INDIRECT COST RATE

LANC has adopted the de minimis indirect cost rate of 10%.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	<u>Basic Field</u>	<u>Migrant</u>	<u>Native American</u>	<u>Total</u>
SUPPORT, REVENUES AND OTHER INCOME:				
LSC grants	\$ 10,917,178	\$ 463,965	\$ 224,422	\$ 11,605,565
Donations and contributions	4,477			4,477
Donated services	3,121,718			3,121,718
Attorney fees / damages	5,000			5,000
Interest income	51,974			51,974
Rental income	262,345			262,345
Net gain on disposal of property and equipment	5,966			5,966
Other revenue and support	31,375	5,000		36,375
Total Support and Revenue	<u>14,400,033</u>	<u>468,965</u>	<u>224,422</u>	<u>15,093,420</u>
EXPENSES:				
Personnel expenses:				
Salaries:				
Attorney	3,143,775	106,057	111,151	3,360,983
Paralegal	563,942	96,243	22,456	682,641
Management	332,532		5,234	337,766
Support	653,485		19,401	672,886
Other salaries	589,852	5,000	10,501	605,353
Accrued leave	23,216	2,114		25,330
Fringe benefits	<u>2,398,533</u>	<u>94,105</u>	<u>55,679</u>	<u>2,548,317</u>
Total Personnel Expenses	7,705,335	303,519	224,422	8,233,276
Nonpersonnel expenses:				
Space	1,177,335	35,342		1,212,677
Equipment	83,876	2,761		86,637
Software maintenance and support	149,629	2,016		151,645
Office supplies, printing/ and postage	239,455	15,722		255,177
Telephone and internet costs	373,199	8,858		382,057
Travel	171,095	4,092		175,187
Training	169,838	2,621		172,459
Library expense	151,823	3,260		155,083
General insurance	102,387	4,529		106,916
Audit	49,500			49,500
Litigation	50,469	1,378		51,847

See independent auditors' report as pertains to supplementary information

Statement of Activities for LSC Grants--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	<u>Basic Field</u>	<u>Migrant</u>	<u>Native American</u>	<u>Total</u>
Contract services, clients:				
Paid to private attorneys	10,200			10,200
Pro Bono	3,121,718			3,121,718
Contract services, programs	88,877	1,326		90,203
Indirect costs allocated	(288,695)	32,894		(255,801)
Other	559,854	25,748		585,602
Total Nonpersonnel Expenses	<u>6,210,560</u>	<u>140,547</u>	<u>0</u>	<u>6,351,107</u>
Total Expenses	<u>13,915,895</u>	<u>444,066</u>	<u>224,422</u>	<u>14,584,383</u>
Support and revenue over expenses	484,138	24,899	0	509,037
Purchase of equipment	<u>(27,644)</u>			<u>(27,644)</u>
Change in net assets	456,494	24,899	0	481,393
Total net assets:				
Beginning of period	<u>482,638</u>	<u>48,403</u>	<u>0</u>	<u>531,041</u>
End of period	<u>\$ 939,132</u>	<u>\$ 73,302</u>	<u>\$ 0</u>	<u>\$ 1,012,434</u>

See independent auditors' report as pertains to supplementary information

Statement of Private Attorney Involvement Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	<u>LSC</u>	<u>IOLTA</u>	<u>State DV</u>	<u>VOCA</u>	<u>ZSR</u>	<u>TOTAL</u>
PERSONNEL EXPENSES:						
Salaries:						
Attorney	\$ 184,759	\$ 145,466	\$	\$	\$	\$ 330,225
Paralegal	83,398	43,112				126,510
Management and support	137,797	4,194				141,991
Fringe benefits allocated	133,965	63,615				197,580
Total Personnel Expenses	<u>539,919</u>	<u>256,387</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>796,306</u>
NONPERSONNEL EXPENSES:						
Payments to private attorneys	10,200		109,440	280,506	29,250	429,396
Other nonpersonnel expenses	186,909					186,909
Other contract services					36,750	36,750
Total Nonpersonnel Expenses	<u>197,109</u>	<u>0</u>	<u>109,440</u>	<u>280,506</u>	<u>66,000</u>	<u>653,055</u>
Total Expenses	<u>\$ 737,028</u>	<u>\$ 256,387</u>	<u>\$ 109,440</u>	<u>\$ 280,506</u>	<u>\$ 66,000</u>	<u>\$ 1,449,361</u>

Notes:

1. Pro Bono services in the amount of \$3,121,718 are not included in the above amounts.
2. PAI expenses incurred by LANC exceeded the 12.5% minimum required by the LSC grant.

See independent auditors' report as pertains to supplementary information.

Summary Statement of Support, Revenue, Expenses and Change in Net Assets (by Funding Source)

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017											2016 Total (*)	
	LSC	IOLTA	State Grants	Title III	Family Violence	United Way	Other	General	Total before Intraoffice	Intraoffice Eliminations	Property		Total
SUPPORT, REVENUES AND OTHER INCOME:													
LSC grants	\$ 11,605,565		\$	\$	\$	\$	\$	\$	\$ 11,605,565		\$	\$ 11,605,565	\$ 11,605,563
Non-LSC grants and contracts		1,645,359	746,190	342,063	4,085,807	412,525	4,978,765		12,210,709			12,210,709	11,150,822
Matching funds				38,000	408,898		4,785		451,683			451,683	217,916
Matching - pro bono/reduced fee services					194,047				194,047			194,047	50,720
Matching - pro bono					78,150				78,150			78,150	75,488
Donations and contributions	4,477			5,373		105		739,109	749,064			749,064	571,183
Donated services	3,121,718								3,121,718			3,121,718	2,868,720
Attorney fees / damages	5,000						35,745		40,745			40,745	73,907
Interest income	51,974								51,974			51,974	30,215
Rental income	262,345								262,345	(26,532)		235,813	252,335
Net gain on disposal of property and equipment	5,966								5,966			5,966	0
Other revenue and support	36,375							9,989	46,364			46,364	82,461
Total Support and Revenue	15,093,420	1,645,359	746,190	385,436	4,766,902	412,630	5,019,295	749,098	28,818,330	(26,532)	0	28,791,798	26,979,330
EXPENSES:													
Personnel expenses:													
Salaries:													
Attorney	3,360,983	867,729	340,817	189,849	2,413,142	202,664	1,072,834	58,578	8,506,596			8,506,596	7,782,941
Paralegal	682,641	148,995	71,283	37,347	354,477	41,021	351,133	28,958	1,715,855			1,715,855	1,581,502
Management	337,766	15,215	16,409	8,830	9,555	12,364	181		400,320			400,320	395,200
Support staff	672,886	144,788	55,990	34,304	211,317	35,334	333,791		1,488,410			1,488,410	1,229,858
Other	605,353	27,026	30,934	19,478		19,089	103,858		805,738			805,738	768,491
Accrued leave	25,330								25,330			25,330	85,200
Fringe benefits	2,548,317	397,223	170,074	95,628	919,694	101,517	562,715	59,981	4,855,149			4,855,149	4,554,418
Total Personnel Expenses	8,233,276	1,600,976	685,507	385,436	3,898,630	409,180	2,436,695	147,698	17,797,398	0	0	17,797,398	16,397,610

(*) Comparative totals do not represent consolidated financial information, but are included for analysis purposes only.

See independent auditors' report as pertains to supplementary information.

Summary Statement of Support, Revenue, Expenses and Change in Net Assets -- (by Funding Source)--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	2017											2016 Total (*)	
	LSC	IOLTA	State Grants	Title III	Family Violence	United Way	Other	General	Total before Intraoffice	Intraoffice Eliminations	Property		Total
Nonpersonnel expenses:													
Space	\$ 1,212,677	\$ 28,787	\$	\$	\$ 53,556	\$	\$ 77,676	\$ 13,253	\$ 1,385,949	\$ (26,532)	\$	\$ 1,359,417	\$ 1,280,807
Equipment	86,637	2,047			4,378		3,885	4,612	101,559			101,559	89,911
Software maintenance and support	151,645	2,881			5,143		20,732		180,401			180,401	117,462
Office supplies, printing and postage	255,177	7,899			21,134	626	34,206	9,581	328,623			328,623	377,694
Telephone and internet costs	382,057	9,440			19,421	1,074	47,586	2,819	462,397			462,397	418,050
Travel	175,187					1,750	43,962	1,758	222,657			222,657	191,608
Training	172,459				14,459		12,189	2,097	201,204			201,204	275,662
Library expense	155,083	3,785	56		8,749		3,289	1,721	172,683			172,683	178,300
General insurance	106,916	2,563			5,525		2,609		117,613			117,613	110,535
Dues and fees		3,159	48,168		7,024		2,314	68,061	128,726			128,726	138,764
Audit	49,500								49,500			49,500	49,751
Litigation	51,847				300		(8,760)	124	43,511			43,511	49,200
Contract services, clients:													
Paid to private attorneys	10,200				389,946		29,250		429,396			429,396	467,219
Pro bono/reduced fee services					194,047				194,047			194,047	50,720
Pro bono	3,121,718				78,150				3,199,868			3,199,868	2,944,208
Contract services, programs	90,203	823			1,512		151,714	1,100	245,352			245,352	163,790
Subgrants/subcontracts awarded							1,959,810		1,959,810			1,959,810	2,122,097
Indirect costs allocated	(255,801)				64,717		191,084		0			0	0
Other	585,602	50,567			2,220		11,877	44,307	694,573			694,573	468,463
Depreciation									0		228,746	228,746	238,793
Loss on disposal of equipment									0		7,034	7,034	3,176
Total Nonpersonnel Expenses	<u>6,351,107</u>	<u>111,951</u>	<u>48,224</u>	<u>0</u>	<u>870,281</u>	<u>3,450</u>	<u>2,583,423</u>	<u>149,433</u>	<u>10,117,869</u>	<u>(26,532)</u>	<u>235,780</u>	<u>10,327,117</u>	<u>9,736,210</u>
Total Expenses	<u>14,584,383</u>	<u>1,712,927</u>	<u>733,731</u>	<u>385,436</u>	<u>4,768,911</u>	<u>412,630</u>	<u>5,020,118</u>	<u>297,131</u>	<u>27,915,267</u>	<u>(26,532)</u>	<u>235,780</u>	<u>28,124,515</u>	<u>26,133,820</u>
Support and revenue over (under) expenses	509,037	(67,568)	12,459	0	(2,009)	0	(823)	451,967	903,063	0	(235,780)	667,283	845,510
Purchase of property and equipment	(27,644)		(12,459)				(16,500)	(36,658)	(93,261)		93,261	0	0
Change in net assets	481,393	(67,568)	0	0	(2,009)	0	(17,323)	415,309	809,802	0	(142,519)	667,283	845,510
Total net assets													
Beginning of year	531,041	178,896	0	0	8,101	0	460,315	1,295,842	2,474,195	0	1,707,834	4,182,029	3,336,519
End of year	<u>\$ 1,012,434</u>	<u>\$ 111,328</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,092</u>	<u>\$ 0</u>	<u>\$ 442,992</u>	<u>\$ 1,711,151</u>	<u>\$ 3,283,997</u>	<u>\$ 0</u>	<u>\$ 1,565,315</u>	<u>\$ 4,849,312</u>	<u>\$ 4,182,029</u>

(*) Comparative totals do not represent consolidated financial information, but are included for analysis purposes only.

See independent auditors' report as pertains to supplementary information.

COMPLIANCE REPORTS



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Aid of North Carolina, Inc. (LANC), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LANC'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 LANC's internal control. Accordingly, we do not express an opinion on the effectiveness of LANC'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 LANC'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*.

Board of Directors
Legal Aid of North Carolina, Inc.
Page Two

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, this communication is not suitable for any other purpose.

Romeo, Wiggins + Company, L.L.P.

Raleigh, North Carolina
April 27, 2018



Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Legal Aid of North Carolina, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *LSC Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on each of Legal Aid of North Carolina, Inc.'s major federal programs for the year ended December 31, 2017. Legal Aid of North Carolina, Inc.'s major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Legal Aid of North Carolina, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Legal Aid of North Carolina, Inc. 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, 2017.

Report on Internal Control Over Compliance

Management of Legal Aid of North Carolina, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Legal Aid of North Carolina Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Legal Aid of North Carolina, Inc.'s internal control over compliance.

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

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

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

Romo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
April 27, 2018

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- ◆ Material weakness(es) identified? yes no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements, as required to be reported in accordance with *Government Auditing Standards*. yes no

Federal Awards

Type of auditors' report issued on compliance for major programs: *Unmodified*

Internal control over major federal award programs:

- ◆ Material weakness(es) identified? yes no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to major federal award programs? yes no

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

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
09.634032	Legal Services Corporation Act
93.332	Cooperative Agreement to Support Navigators in Federally-Facilitated and State Partnership Exchanges
14.418	Private Enforcement Initiatives

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

Auditee qualified as low-risk auditee? yes no

Schedule of Findings and Questioned Costs--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Section II - Financial Statement Findings

No such findings to report.

Section III - Federal Award Findings and Questioned Costs

No such findings to report.

Summary Schedule of Prior Audit Findings

Legal Aid of North Carolina, Inc.

Year Ended December 31, 2017

There are no matters to report.