

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2019 and 2018**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2019 and 2018

Audited Financial Statements

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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-a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report--Continued

Other Matters

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, 2019, 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, 2019, 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 23, 2020 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 23, 2020

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,948,438	\$ 3,237,153
Client escrow funds	48,873	129,685
Receivables:		
Grants and contracts	3,372,981	2,455,502
Sales tax	48,822	41,461
Other	51,198	40,328
Prepaid expenses	77,144	76,335
Deposits	58,706	47,669
Other	0	192
TOTAL CURRENT ASSETS	<u>5,606,162</u>	<u>6,028,325</u>
PROPERTY AND EQUIPMENT		
Land and buildings	2,085,415	2,085,415
Building improvements	606,925	605,316
Leasehold improvements	178,812	178,812
Equipment and furniture	779,508	906,026
Vehicles	200,983	200,983
Website	138,530	138,530
Construction in progress	306,917	239,407
	<u>4,297,090</u>	<u>4,354,489</u>
Accumulated depreciation	<u>(2,386,530)</u>	<u>(2,555,465)</u>
	<u>1,910,560</u>	<u>1,799,024</u>
TOTAL ASSETS	<u>\$ 7,516,722</u>	<u>\$ 7,827,349</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 152,279	\$ 169,745
Client deposits	48,873	129,685
Accrued vacation	763,031	716,791
Other accrued liabilities	1,054,790	875,762
Subcontracts/subgrants payable	205,935	167,423
Deferred support/ revenue	166,479	204,224
TOTAL CURRENT LIABILITIES	<u>2,391,387</u>	<u>2,263,630</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>2,391,387</u>	<u>2,263,630</u>
NET ASSETS		
Without donor restrictions:		
Property and equipment	837,979	752,572
Other net assets - without donor restrictions	2,482,462	1,880,342
	<u>3,320,441</u>	<u>2,632,914</u>
With donor restrictions:		
Property and equipment	1,072,581	1,046,452
Other net assets - with donor restrictions	732,313	1,884,353
	<u>1,804,894</u>	<u>2,930,805</u>
TOTAL NET ASSETS	<u>5,125,335</u>	<u>5,563,719</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,516,722</u>	<u>\$ 7,827,349</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 12,539,693	\$ 12,539,693
Non-LSC grants and contracts	830,781	13,249,965	14,080,746
Matching assistance	405,852	915,223	1,321,075
Donations and contributions:			
Other	965,911	6,294	972,205
Donated services	2,592,590		2,592,590
Attorney fees / damages		27,346	27,346
Interest income		83,054	83,054
Rental income		237,246	237,246
Other revenue and support	3,047	14,537	17,584
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>28,199,269</u>	<u>(28,199,269)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>32,997,450</u>	<u>(1,125,911)</u>	<u>31,871,539</u>
EXPENSES			
Program services:			
LSC	12,043,582		12,043,582
IOLTA	1,857,746		1,857,746
Title III	543,238		543,238
Family Violence	7,543,832		7,543,832
United Way	446,636		446,636
Other	4,813,952		4,813,952
General	422,198		422,198
Property	163,445		163,445
Donated services	<u>2,834,439</u>		<u>2,834,439</u>
	30,669,068	<u>0</u>	30,669,068
Support services:			
Management and general	1,361,848		1,361,848
Fundraising	<u>279,007</u>		<u>279,007</u>
	<u>1,640,855</u>	<u>0</u>	<u>1,640,855</u>
TOTAL EXPENSES	<u>32,309,923</u>	<u>0</u>	<u>32,309,923</u>
CHANGE IN NET ASSETS	687,527	(1,125,911)	(438,384)
Net assets, beginning of year	<u>2,632,914</u>	<u>2,930,805</u>	<u>5,563,719</u>
NET ASSETS, END OF YEAR	<u>\$ 3,320,441</u>	<u>\$ 1,804,894</u>	<u>\$ 5,125,335</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 12,396,854	\$ 12,396,854
Non-LSC grants and contracts	629,766	12,468,157	13,097,923
Matching assistance	441,085	626,282	1,067,367
Donations and contributions:			
Other	513,512	4,652	518,164
Donated services	1,984,230		1,984,230
Attorney fees / damages		25,798	25,798
Interest income		74,711	74,711
Rental income		238,280	238,280
Other revenue and support	15,756	4,887	20,643
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>24,685,584</u>	<u>(24,685,584)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>28,269,933</u>	<u>1,154,037</u>	<u>29,423,970</u>
EXPENSES			
Program services:			
LSC	10,922,536		10,922,536
IOLTA	1,869,279		1,869,279
Title III	379,101		379,101
Family Violence	6,037,319		6,037,319
United Way	384,988		384,988
Other	4,300,743		4,300,743
General	226,808		226,808
Property	131,772		131,772
Donated services	<u>2,198,994</u>		<u>2,198,994</u>
	26,451,540	<u>0</u>	26,451,540
Support services:			
Management and general	2,045,038		2,045,038
Fundraising	<u>212,985</u>		<u>212,985</u>
	<u>2,258,023</u>	<u>0</u>	<u>2,258,023</u>
TOTAL EXPENSES	<u>28,709,563</u>	<u>0</u>	<u>28,709,563</u>
CHANGE IN NET ASSETS	(439,630)	1,154,037	714,407
Net assets, beginning of year	<u>3,072,544</u>	<u>1,776,768</u>	<u>4,849,312</u>
NET ASSETS, END OF YEAR	<u>\$ 2,632,914</u>	<u>\$ 2,930,805</u>	<u>\$ 5,563,719</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2019

	Program Services	Support Services	Total
PERSONNEL:			
Salaries			
Attorneys	\$ 11,095,660	\$	\$ 11,095,660
Paralegals	2,158,028		2,158,028
Management		423,100	423,100
Support	1,703,426	66,050	1,769,476
Other	230,527	891,214	1,121,741
Accrued leave	45,085	1,155	46,240
Fringe benefits	5,044,563	491,606	5,536,169
Total personnel	<u>20,277,289</u>	<u>1,873,125</u>	<u>22,150,414</u>
OTHER EXPENSES:			
Space	1,384,541	259,196	1,643,737
Equipment	101,345	17,600	118,945
Software maintenance and support	138,870	22,917	161,787
Office supplies/equipment, printing and postage	535,623	43,431	579,054
Telephone and internet costs	408,326	54,003	462,329
Travel	252,461	20,484	272,945
Training	258,239	27,680	285,919
Library expense	213,320	14,219	227,539
General insurance	126,925	9,547	136,472
Dues and fees	151,679	30,233	181,912
Audit	1,144	42,593	43,737
Litigation	93,256	4,231	97,487
Contract services, clients:			
Paid to private attorneys	188,414	28,665	217,079
Pro bono/reduced fee services	164,003		164,003
Pro bono	2,834,439		2,834,439
Contract services, program	292,536	34,145	326,681
Subgrants / subcontracts awarded	1,044,666		1,044,666
Other	1,087,653	59,793	1,147,446
Depreciation	143,257	49,887	193,144
Loss on disposal of equipment	20,188		20,188
Allocation of indirect costs	950,894	(950,894)	0
Total other expenses	<u>10,391,779</u>	<u>(232,270)</u>	<u>10,159,509</u>
TOTAL EXPENSES	<u>\$ 30,669,068</u>	<u>\$ 1,640,855</u>	<u>\$ 32,309,923</u>

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

	Program Services	Support Services	Total
	<u> </u>	<u> </u>	<u> </u>
PERSONNEL:			
Salaries			
Attorneys	\$ 9,630,688	\$	\$ 9,630,688
Paralegals	1,825,849		1,825,849
Management		409,759	409,759
Support	1,546,280	61,175	1,607,455
Other	176,248	758,258	934,506
Accrued leave	40,269	160	40,429
Fringe benefits	4,379,026	406,834	4,785,860
Total personnel	<u>17,598,360</u>	<u>1,636,186</u>	<u>19,234,546</u>
OTHER EXPENSES:			
Space	1,253,353	234,304	1,487,657
Equipment	107,677	12,256	119,933
Software maintenance and support	134,596	25,994	160,590
Office supplies/equipment, printing and postage	360,980	42,274	403,254
Telephone and internet costs	429,189	43,524	472,713
Travel	229,351	16,349	245,700
Training	237,360	20,713	258,073
Library expense	215,298	13,028	228,326
General insurance	113,712	10,063	123,775
Dues and fees	125,075	29,844	154,919
Audit		42,138	42,138
Litigation	84,276	61	84,337
Contract services, clients:			
Paid to private attorneys	271,218		271,218
Pro bono/reduced fee services	226,321		226,321
Pro bono	2,198,994		2,198,994
Contract services, program	164,489	49,053	213,542
Subgrants / subcontracts awarded	1,652,170		1,652,170
Other	796,697	63,291	859,988
Depreciation	124,958	139,597	264,555
Loss on disposal of equipment	6,814		6,814
Allocation of indirect costs	120,652	(120,652)	0
Total other expenses	<u>8,853,180</u>	<u>621,837</u>	<u>9,475,017</u>
TOTAL EXPENSES	<u>\$ 26,451,540</u>	<u>\$ 2,258,023</u>	<u>\$ 28,709,563</u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (438,384)	\$ 714,407
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	193,144	264,555
Net loss on disposal of property and equipment	20,188	6,814
Decrease (increase) in operating assets:		
Receivables	(935,710)	(1,041,334)
Prepaid expenses	(809)	(59,067)
Deposits	(11,037)	(774)
Other	192	(192)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	207,802	76,843
Grants payable	38,512	(166,332)
Deferred support	<u>(37,745)</u>	<u>(212,866)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(963,847)</u>	<u>(417,946)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(324,868)</u>	<u>(505,078)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(324,868)</u>	<u>(505,078)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,288,715)	(923,024)
Cash and cash equivalents, beginning of year	<u>3,237,153</u>	<u>4,160,177</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,948,438</u>	<u>\$ 3,237,153</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, 2019 and 2018

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 have been prepared in accordance with FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which was first effective for fiscal years beginning after December 15, 2017. LANC is thereby required to report information regarding its financial position and activities according to the following net asset classes:

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 LANC.

Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors and grantors. 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.

Due to the implementation of ASU 2016-14, LANC is required to report expenses by nature and function, and to include both quantitative and qualitative disclosures with regard to the availability and liquidity of assets. (Refer also to *Note M-- Availability and Liquidity of Assets.*)

Basis of Presentation: The accompanying financial statements have been prepared on an accrual basis and are in conformity with standards promulgated by the American Institute of Certified Public Accountants.

Recent Accounting Pronouncements: Effective January 1, 2019, LANC adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in Topic 606 is that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this pronouncement did not have a material impact on its financial statements.

Effective January 1, 2019, LANC adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU are intended to assist entities (1) in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) in determining whether a contribution is conditional. The adoption of this pronouncement did not have a material impact on its financial statements.

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.

LEGAL AID OF NORTH CAROLINA, INC.

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

LANC's operating revenues in excess of expenses includes all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions according to LANC's spending policy.

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, 2019 and 2018, cash equivalents include \$1,661,872 and \$3,142,363, 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.

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 \$382,266 and a net book value of \$20,188 were written-off in 2019 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.

Functional Expenses: LANC allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Certain indirect expenses are allocated to programs based on estimated usage and/or benefit.

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, 2019 and 2018, 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.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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

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

Future Pronouncements: In January 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019. Management is still evaluating the impact implementation of ASU 2016-02 will have on LANC’s 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>2019</u>	<u>2018</u>
Basic Grant	\$ 11,802,933	\$ 11,735,358
Migrant Workers	461,988	403,772
Native Americans	242,593	239,724
Technology	182,000	182,000
Technology	<u>(149,821)*</u>	<u>(182,000)*</u>
	<u>\$ 12,539,693</u>	<u>\$ 12,396,854</u>

* to defer recognition of unspent TIG grant.

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.

The North Carolina General Assembly (“NCGA”) provides dedicated funding from court fees to LANC pursuant to 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 the Act. In 2019 and 2018, 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.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE B -- FUNDING -- Continued

In 2019 and 2018, 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 \$963,000 and \$511,000 was recognized as support for the years ended December 31, 2019 and 2018, respectively, as a result of these efforts. The 2019 amount includes approximately \$254,000 in Cy Pres award. These funds were from residuals of a class action case.

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 2016 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 \$665,112 for 2019 and \$547,188 for 2018. No matching contributions were approved for 2019 and 2018.

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, 2019 and 2018, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$3,371,597 and \$3,821,233, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2019</u>	<u>2018</u>
Claims paid, net beginning of year IBNR accrual	\$ 2,683,917	\$ 2,463,707
Less: Reimbursements over stop-loss	(207,292)	(307,555)
Employee withholdings for premiums	(350,412)	(305,791)
Stop-loss premiums, network and administrative fees	617,048	498,528
IBNR accrual, December 31	<u>289,092</u>	<u>264,202</u>
	<u>\$ 3,032,353</u>	<u>\$ 2,613,091</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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, 2019 or December 31, 2018.

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, 2019 and 2018.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 39% and 42% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2019 and 2018, 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 at December 31:

LSC Property

	2019			2018		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and buildings	\$ 1,764,584	\$ 961,594	\$ 802,990	\$ 1,764,584	\$ 930,835	\$ 833,749
Building improvements	402,366	286,334	116,032	400,757	274,715	126,042
Leasehold improvements	48,868	25,733	23,135	48,868	22,777	26,091
Equipment and furniture	429,227	303,720	125,507	560,786	500,216	60,570
Vehicles	22,361	22,361	0	22,361	22,361	0
Website	0	0	0	0	0	0
Construction in progress	4,917	0	4,917	0	0	0
	<u>\$ 2,672,323</u>	<u>\$ 1,599,742</u>	<u>\$ 1,072,581</u>	<u>\$ 2,797,356</u>	<u>\$ 1,750,904</u>	<u>\$ 1,046,452</u>

Non-LSC Property

	2019			2018		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and buildings	\$ 320,831	\$ 88,749	\$ 232,082	\$ 320,831	\$ 81,354	\$ 239,477
Building improvements	204,559	128,434	76,125	204,559	118,157	86,402
Leasehold improvements	129,944	127,924	2,020	129,944	126,914	3,030
Equipment and furniture	350,281	208,388	141,893	345,240	272,796	72,444
Vehicles	178,622	94,763	83,859	178,622	66,810	111,812
Website	138,530	138,530	0	138,530	138,530	0
Construction in progress	302,000	0	302,000	239,407	0	239,407
	<u>\$ 1,624,767</u>	<u>\$ 786,788</u>	<u>\$ 837,979</u>	<u>\$ 1,557,133</u>	<u>\$ 804,561</u>	<u>\$ 752,572</u>
<u>Total Property</u>	<u>\$ 4,297,090</u>	<u>\$ 2,386,530</u>	<u>\$ 1,910,560</u>	<u>\$ 4,354,489</u>	<u>\$ 2,555,465</u>	<u>\$ 1,799,024</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>2019</u>	<u>2018</u>
LSC (including interest in fixed assets)	\$ 13,714,835	\$ 12,908,284
IOLTA	1,858,011	1,889,597
Title III	582,176	381,824
Family Violence	7,578,000	6,044,406
United Way	446,636	393,972
Other	4,045,740	3,910,031
Property:		
Depreciation and (gain) loss on disposal	213,332	271,369
LSC interest in fixed assets	<u>(239,461)</u>	<u>(1,113,899)</u>
	<u>\$ 28,199,269</u>	<u>\$ 24,685,584</u>

NOTE I -- NET ASSETS WITH DONOR RESTRICTIONS

Grants and other contract support are reported as with donor restrictions support until the program services for which the restrictions were imposed have been satisfied. Once the restrictions have been satisfied, with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions are available from the following sources to provide legal assistance to economically disadvantaged persons:

	December 31,	
	<u>2019</u>	<u>2018</u>
LSC	\$ 21,721	\$ 833,680
IOLTA	30,368	79,471
Title III	26,915	4,051
Family Violence	5,741	0
United Way	0	34,695
Other	647,568	932,456
Property	<u>1,072,581</u>	<u>1,046,452</u>
	<u>\$ 1,804,894</u>	<u>\$ 2,930,805</u>

NOTE J -- CONDITIONAL PROMISES TO GIVE

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

<u>Grant Awards</u>	<u>2019</u>	<u>2018</u>
LSC	\$ 13,237,257	\$ 12,507,514
LSC – Disaster	4,836,024	0
LSC – Technology	149,821	182,000
NC IOLTA	1,785,500	1,712,525
Statewide Navigator	846,086	239,335
Z. Smith Reynolds	0	250,000
Rural Community Development Initiative (RCDI)	0	32,281
Family Violence Prevention (FVPE)	106,025	44,025
GCC VOCA (Statewide)	2,633,540	6,070,626
GCC VOCA (DVAC)	202,667	499,386

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE J -- CONDITIONAL PROMISES TO GIVE -- Continued

<u>Grant Awards</u>	<u>2019</u>	<u>2018</u>
GCC VOCA BIP	396,567	861,622
GCC VOCA Human Trafficking	394,288	157,992
GCC VOCA Elder Abuse	250,863	660,626
VOCA Financial Exploitation	969,369	0
Interact VOCA	43,945	104,784
Interact OVW	43,913	75,000
NCCADV VOCA	51,845	51,848
DCRC VOCA	53,040	123,760
Harbor VOCA	35,234	105,355
Forsyth County VAWA	36,700	44,250
DOJ Enhancing Youth Access	0	133,422
Blue Cross Blue Shield	0	100,000
Kate B. Reynolds	0	466,000
OVW/ City of High Point	0	63,622
HUD Fair Housing Initiative EOI	58,971	14,508
HUD Fair Housing Initiative PEI	505,765	221,650
Cone Health Foundation	82,607	123,000
Mecklenburg County	552,018	298,234
Vanderbilt University Law School	26,000	0
City of Raleigh	25,000	25,000
United Way	219,578	396,445
Title III	<u>19,930</u>	<u>18,907</u>
	<u>\$ 27,562,553</u>	<u>\$ 25,583,717</u>

Conditional promises to give (made by LANC) include the following at December 31, 2019: Statewide Navigator subawards of \$179,867, HUD - EOI subawards of \$3,320, HUD – PEI subawards of \$61,070 and Z. Smith Reynolds subawards of \$139,630.

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2019 and 2018, 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 -- OPERATING LEASES (including a subsequent event)

Certain of the LANC offices lease facilities and equipment under operating leases expiring at various times through 2029.

Subsequent Event: In February 2020, LANC entered into a two year noncancellable operating lease for office space in Rocky Mount, North Carolina.

At December 31, 2019, future minimum rentals under the long-term leases including effects of the subsequent lease are as follows:

2020	\$ 1,143,260
2021	686,232
2022	401,000
2023	210,896
2024	174,805
Thereafter	<u>599,932</u>
	<u>\$ 3,216,125</u>

Lease expense approximated \$1,145,000 and \$1,028,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
<u>December 31, 2019</u>				
Cash equivalents (Note A)	\$ <u>1,661,872</u>	\$ <u>0</u>	\$ <u>1,661,872</u>	\$ <u>0</u>
<u>December 31, 2018</u>				
Cash equivalents (Note A)	\$ <u>3,142,363</u>	\$ <u>0</u>	\$ <u>3,142,363</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, 2019 and 2018, LANC has no assets or liabilities classified within Levels 1 or 3 of the fair value hierarchy.

LANC recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended December 31, 2019 and 2018.

NOTE M -- LIQUIDITY AND AVAILABILITY

The following reflects LANC's financial assets at the statement of financial position dates, reduced by amounts not available for general expenditures within one year:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end (cash and cash equivalents and receivables)	\$ 5,372,617	\$ 5,732,983
Less those unavailable for general expenditures within one year, due to:		
Net assets with donor-imposed purpose restrictions	<u>(1,804,894)</u>	<u>(2,930,805)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,567,723</u>	<u>\$ 2,802,178</u>

As part of LANC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, LANC invests cash in excess of daily requirements in the STIF Account.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE N -- EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 23, 2020, 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, 2019

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	\$ 13,741,367	*
U.S. Department of Justice:			
Legal Assistance for Victims:			
VAWA Forsyth County	16.524	81,150	
30th Judicial District DV Alliance (OVW)	16.524	36,394	
Interact (OVW)	16.590	61,088	
Improving Criminal Justice Responses (OVW)	16.590	63,622	
Enhancing Youth Access	16.812	133,422	
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	3,685,251	*
Matching assistance:			
Cash	matching	573,379	
Non-cash	matching	<u>327,134</u>	
		900,513	
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	290,680	*
Matching assistance:			
Cash	matching	50,451	
Non-cash	matching	<u>13,638</u>	
		64,089	
Domestic Violence Advocacy Center (VOCA):			
Battered Immigrant Project			
Program expenditures	16.575	460,782	*
Matching assistance:			
Cash	matching	96,904	
Non-cash	matching	<u>22,500</u>	
		119,404	
Domestic Violence Advocacy Center (VOCA):			
Human Trafficking			
Program expenditures	16.575	210,965	*
Matching assistance:			
Cash	matching	<u>52,368</u>	
		52,368	
Domestic Violence Advocacy Center (VOCA):			
Elder Abuse			
Program expenditures	16.575	411,850	*
Matching assistance:			
Cash	matching	53,712	
Non-cash	matching	<u>42,580</u>	
		96,292	
Domestic Violence Advocacy Center (VOCA):			
Financial Exploitation			
Program expenditures	16.575	95,224	*
Domestic Violence Advocacy Center (VOCA):			
NCADV			
Program expenditures	16.575	69,965	*
Domestic Violence Advocacy Center (VOCA):			
DCRC			
Program expenditures	16.575	70,720	*
Domestic Violence Advocacy Center (VOCA):			
Interact			
Program expenditures	16.575	62,458	*
Domestic Violence Advocacy Center (VOCA):			
Harbor			
Program expenditures	16.575	47,694	*
Matching assistance:			
Cash	matching	<u>15,537</u>	
		15,537	

* 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, 2019

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	493,249	356,076
<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	539,703 *	
Cash matching assistance	matching	60,043	
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671	58,000	
Cash matching assistance	matching	11,600	
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives			
	14.418	315,885	37,200
Education and Outreach Project			
	14.416	80,536	2,662
<u>U.S. Department of Agriculture:</u>			
The Rural Community Development Initiative (RCDI):			
Program expenditures	10.446	1,229	
Non-cash matching assistance	matching	1,229	
Total Expenditures of Federal Awards		\$ 21,011,234	
Total Federal Matching Assistance		\$ 1,321,075	

* 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, 2019

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:			
Domestic Violence Victim Assistance Act	\$ 995,853	\$ 1,003,946	
	<u>995,853</u>	<u>1,003,946</u>	
Total State Awards	\$ <u>995,853</u>	\$ <u>1,003,946</u>	
OTHER AWARDS:			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	800,000	800,000	
Volunteer Lawyer Program	225,000	225,000	
Disaster Relief	69,150	40,025	
Home Defense	565,000	565,133	
Community Redevelopment	142,500	193,251	
FPLC Community Redevelopment	36,250	34,602	
<u>Z. Smith Reynolds Foundation:</u>			
Home Defense Project	605,000	465,370	199,615
<u>Kate B. Reynolds Charitable Trust:</u>			
Statewide Navigator	466,000	372,380	
Total Other Awards	\$ <u>2,908,900</u>	\$ <u>2,695,761</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, 2019

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	\$ 37,200
14.416	Education and Outreach Project	2,662
ZSR	Home Defense Project	199,615
93.332	Statewide Navigator	356,076
16.575	Elder Abuse	56,090

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, 2019

	Basic Field	Migrant	Native American	Technology Initiative	Total
SUPPORT, REVENUES AND OTHER INCOME:					
LSC grants	\$ 11,802,933	\$ 461,988	\$ 242,593	\$ 32,179	\$ 12,539,693
Donations and contributions		1,000			1,000
Donated services	2,592,590				2,592,590
Attorney fees / damages	24,346	3,000			27,346
Interest income	83,054				83,054
Rental income	263,778				263,778
Other revenue and support	14,537				14,537
Total Support and Revenue	<u>14,781,238</u>	<u>465,988</u>	<u>242,593</u>	<u>32,179</u>	<u>15,521,998</u>
EXPENSES:					
Personnel expenses:					
Salaries:					
Attorney	4,317,565	141,250	84,154		4,542,969
Paralegal	910,406	104,414	27,790		1,042,610
Management	415,482				415,482
Support	808,429		27,056	16,676	852,161
Other salaries	920,858	3,490			924,348
Accrued leave	47,375	(1,135)			46,240
Fringe benefits	2,626,891	88,773	45,870	5,503	2,767,037
Total Personnel Expenses	<u>10,047,006</u>	<u>336,792</u>	<u>184,870</u>	<u>22,179</u>	<u>10,590,847</u>
Nonpersonnel expenses:					
Space	1,190,397	40,583	16,084		1,247,064
Equipment	65,970	3,597	1,355		70,922
Software maintenance and support	94,334	3,026	1,836		99,196
Office supplies, printing/ and postage	255,126	16,099	4,546		275,771
Telephone and internet costs	282,389	13,107	5,420		300,916
Travel	176,269	4,247			180,516
Training	168,616	3,718			172,334
Library expense	150,718	4,043	2,710		157,471
General insurance	90,958	4,359	1,442		96,759
Dues and fees	34,644	1,335	1,573		37,552
Audit	42,593				42,593
Litigation	93,582	313			93,895

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, 2019

	Basic Field	Migrant	Native American	Technology Initiative	Total
Contract services, clients:					
Paid to private attorneys					0
Pro Bono	2,592,590				2,592,590
Contract services, programs	136,098	131		10,000	146,229
Indirect costs allocated	(950,894)	22,628	20,965		(907,301)
Other	1,000,269	9,588	1,792		1,011,649
Total Nonpersonnel Expenses	<u>5,423,659</u>	<u>126,774</u>	<u>57,723</u>	<u>10,000</u>	<u>5,618,156</u>
Total Expenses	<u>15,470,665</u>	<u>463,566</u>	<u>242,593</u>	<u>32,179</u>	<u>16,209,003</u>
Support and revenue over expenses	(689,427)	2,422	0	0	(687,005)
Purchase of equipment	<u>(122,532)</u>	<u>(2,422)</u>			<u>(124,954)</u>
Change in net assets	(811,959)	0	0	0	(811,959)
Total net assets:					
Beginning of period	<u>833,680</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>833,680</u>
End of period	<u>\$ 21,721</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,721</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, 2019

SUPPORT

Basic Field grant = \$11,802,933 x 12.5%	\$ 1,475,367
Total Support	<u>\$ 1,475,367</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 360,651
Paralegals	152,366
Management and support staff	259,156
	<u>772,173</u>

Fringe benefits

	<u>254,817</u>
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Total Personnel Expenses	<u>1,026,990</u>
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Nonpersonnel Expenses:

Payments to private attorneys	217,079
Other contract services	37,020
Nonpersonnel expenses	253,706
Total Nonpersonnel Expenses	<u>507,805</u>

Total Expenses	<u>\$ 1,534,795</u>
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Net PAI expenses over the requirement threshold	<u>\$ (59,428)</u>
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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, 2019
(With comparative totals for the year ended December 31, 2018)

	2019										2018 Total (*)	
	LSC	IOLTA	Title III	Family Violence	United Way	Other	General	Total before Intraoffice	Intraoffice Eliminations	Property		Total
SUPPORT, REVENUES AND OTHER INCOME:												
LSC grants	\$ 12,539,693	\$	\$	\$	\$	\$	\$	\$ 12,539,693	\$	\$	\$ 12,539,693	\$ 12,396,854
Non-LSC grants and contracts		1,808,908	539,703	6,729,790	411,941	4,590,404		14,080,746			14,080,746	13,097,923
Matching funds			60,043	853,951		1,229		915,223			915,223	626,282
Matching - pro bono/reduced fee services				164,003				164,003			164,003	226,321
Matching - pro bono				241,849				241,849			241,849	214,764
Donations and contributions	1,000		5,294				965,911	972,205			972,205	518,164
Donated services	2,592,590							2,592,590			2,592,590	1,984,230
Attorney fees / damages	27,346							27,346			27,346	25,798
Interest income	83,054							83,054			83,054	74,711
Rental income	263,778							263,778	(26,532)		237,246	238,280
Net gain on disposal of property and equipment								0			0	0
Other revenue and support	14,537						3,047	17,584			17,584	20,643
Total Support and Revenue	15,521,998	1,808,908	605,040	7,989,593	411,941	4,591,633	968,958	31,898,071	(26,532)	0	31,871,539	29,423,970
EXPENSES:												
Personnel expenses:												
Salaries:												
Attorney	4,542,969	861,098	278,728	3,664,050	194,647	1,443,457	110,711	11,095,660			11,095,660	9,630,688
Paralegal	1,042,610	124,192	29,191	455,582	34,877	453,486	18,090	2,158,028			2,158,028	1,825,849
Management	415,482	40				7,361	217	423,100			423,100	409,759
Support staff	852,161	160,038	16,593	338,152	2,940	399,592		1,769,476			1,769,476	1,607,455
Other	924,348					197,393		1,121,741			1,121,741	934,506
Accrued leave	46,240							46,240			46,240	40,429
Fringe benefits	2,767,037	366,014	107,088	1,400,484	79,796	773,174	42,576	5,536,169			5,536,169	4,785,860
Total Personnel Expenses	10,590,847	1,511,382	431,600	5,858,268	312,260	3,274,463	171,594	22,150,414	0	0	22,150,414	19,234,546

(*) 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, 2019
(With comparative totals for the year ended December 31, 2018)

	2019											2018 Total (*)
	LSC	IOLTA	Title III	Family Violence	United Way	Other	General	Total before Intraoffice	Intraoffice Eliminations	Property	Total	
Nonpersonnel expenses:												
Space	\$ 1,247,064	\$ 84,304	\$ 28,723	\$ 211,105	\$ 22,835	\$ 74,340	\$ 1,898	\$ 1,670,269	\$ (26,532)	\$	\$ 1,643,737	\$ 1,487,657
Equipment	70,922	8,353	2,311	29,772	1,924	5,403	260	118,945			118,945	119,933
Software maintenance and support	99,196	11,188	3,163	29,650	2,606	15,767	217	161,787			161,787	160,590
Office supplies, printing and postage	275,771	23,914	7,867	214,958	7,706	48,302	536	579,054			579,054	403,254
Telephone and internet costs	300,916	30,373	9,142	72,389	9,763	39,106	640	462,329			462,329	472,713
Travel	180,516	9,436		29,214	904	51,694	1,181	272,945			272,945	245,700
Training	172,334	6,859		45,173	186	34,568	26,799	285,919			285,919	258,073
Library expense	157,471	13,121	4,953	38,852	3,847	8,975	320	227,539			227,539	228,326
General insurance	96,759	8,020	2,637	19,251	2,048	7,587	170	136,472			136,472	123,775
Dues and fees	37,552	7,672	2,726	21,693	2,234	4,882	105,153	181,912			181,912	154,919
Audit	42,593	1,144						43,737			43,737	42,138
Litigation	93,895	1,932		484		1,002	174	97,487			97,487	84,337
Contract services, clients:												
Paid to private attorneys				190,079		27,000		217,079			217,079	271,218
Pro bono/reduced fee services				164,003				164,003			164,003	226,321
Pro bono	2,592,590			241,849				2,834,439			2,834,439	2,198,994
Contract services, programs	146,229	14,087		7,521		109,844	49,000	326,681			326,681	213,542
Subgrants/subcontracts awarded				56,090	52,410	936,166		1,044,666			1,044,666	1,652,170
Indirect costs allocated	(907,301)	118,082	86,508	542,080	25,369	216,514	(81,252)	0			0	0
Other	1,011,649	8,144	2,546	21,178	2,544	11,237	90,148	1,147,446			1,147,446	859,988
Depreciation								0		193,144	193,144	264,555
Loss on disposal of equipment								0		20,188	20,188	6,814
Total Nonpersonnel Expenses	<u>5,618,156</u>	<u>346,629</u>	<u>150,576</u>	<u>1,935,341</u>	<u>134,376</u>	<u>1,592,387</u>	<u>195,244</u>	<u>9,972,709</u>	<u>(26,532)</u>	<u>213,332</u>	<u>10,159,509</u>	<u>9,475,017</u>
Total Expenses	<u>16,209,003</u>	<u>1,858,011</u>	<u>582,176</u>	<u>7,793,609</u>	<u>446,636</u>	<u>4,866,850</u>	<u>366,838</u>	<u>32,123,123</u>	<u>(26,532)</u>	<u>213,332</u>	<u>32,309,923</u>	<u>28,709,563</u>
Support and revenue over (under) expenses	(687,005)	(49,103)	22,864	195,984	(34,695)	(275,217)	602,120	(225,052)	0	(213,332)	(438,384)	714,407
Purchase of property and equipment	(124,954)			(190,243)		(9,671)		(324,868)		324,868	0	0
Change in net assets	(811,959)	(49,103)	22,864	5,741	(34,695)	(284,888)	602,120	(549,920)	0	111,536	(438,384)	714,407
Total net assets												
Beginning of year	833,680	79,471	4,051	0	34,695	932,456	1,880,342	3,764,695	0	1,799,024	5,563,719	4,849,312
End of year	<u>\$ 21,721</u>	<u>\$ 30,368</u>	<u>\$ 26,915</u>	<u>\$ 5,741</u>	<u>\$ 0</u>	<u>\$ 647,568</u>	<u>\$ 2,482,462</u>	<u>\$ 3,214,775</u>	<u>\$ 0</u>	<u>\$ 1,910,560</u>	<u>\$ 5,125,335</u>	<u>\$ 5,563,719</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



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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2020.

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.

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

Raleigh, North Carolina
April 23, 2020



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, 2019. 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, 2019.

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 a 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.

Romer, Wiggins & Company, L.L.P.

Raleigh, North Carolina
April 23, 2020

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2019

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
93.044	Title III B Grants for Supportive Services and Senior Centers
16.575	Victims of Crime Act (VOCA)

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, 2019

There are no matters to report.