

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2020 and 2019**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020, 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 and statement of private attorney involvement expenses as of or for the year ending December 31, 2020, 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, 2021 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.P.

Raleigh, North Carolina
April 23, 2021

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,930,959	\$ 1,948,438
Client escrow funds	49,703	48,873
Receivables:		
Grants and contracts	6,998,204	3,372,981
Sales tax	25,021	48,822
Other	184,851	51,198
Prepaid expenses	56,227	77,144
Deposits	66,029	58,706
Investment in joint venture	<u>1,500,000</u>	<u>0</u>
TOTAL CURRENT ASSETS	<u>18,810,994</u>	<u>5,606,162</u>
PROPERTY AND EQUIPMENT		
Land and buildings	2,085,415	2,085,415
Building improvements	613,425	606,925
Leasehold improvements	178,812	178,812
Equipment and furniture	780,098	779,508
Vehicles	184,390	200,983
Website	138,530	138,530
Software	25,550	0
Construction in progress	<u>310,917</u>	<u>306,917</u>
	4,317,137	4,297,090
Accumulated depreciation	<u>(2,559,106)</u>	<u>(2,386,530)</u>
	<u>1,758,031</u>	<u>1,910,560</u>
TOTAL ASSETS	<u>\$ 20,569,025</u>	<u>\$ 7,516,722</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 577,402	\$ 152,279
Client deposits	49,703	48,873
Accrued vacation	1,033,198	763,031
Other accrued liabilities	1,253,479	1,054,790
Subcontracts/subgrants payable	232,924	205,935
Deferred support/revenue	<u>11,060,591</u>	<u>166,479</u>
TOTAL CURRENT LIABILITIES	14,207,297	2,391,387
Note payable	<u>1,500,000</u>	<u>0</u>
TOTAL LIABILITIES	<u>15,707,297</u>	<u>2,391,387</u>
NET ASSETS		
Without donor restrictions:		
Property and equipment	744,414	837,979
Other net assets - without donor restrictions	<u>2,928,718</u>	<u>2,482,462</u>
	3,673,132	3,320,441
With donor restrictions:		
Property and equipment	1,013,617	1,072,581
Other net assets - with donor restrictions	<u>174,979</u>	<u>732,313</u>
	<u>1,188,596</u>	<u>1,804,894</u>
TOTAL NET ASSETS	<u>4,861,728</u>	<u>5,125,335</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,569,025</u>	<u>\$ 7,516,722</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 12,988,400	\$ 12,988,400
Non-LSC grants and contracts	414,000	14,572,356	14,986,356
Matching assistance	49,242	172,686	221,928
PPP loan proceeds eligible for forgiveness	3,444,300		3,444,300
Donations and contributions:			
Other	834,666	4,800	839,466
Donated services	1,623,584		1,623,584
Attorney fees / damages		15,422	15,422
Interest income		74,374	74,374
Rental income		226,820	226,820
Proceeds from disposal of property and equipment	15,413		15,413
Other revenue and support	4,881	3,550	8,431
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>28,674,706</u>	<u>(28,674,706)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>35,060,792</u>	<u>(616,298)</u>	<u>34,444,494</u>
EXPENSES			
Program services	31,719,684		31,719,684
Support services:			
Management and general	2,807,334		2,807,334
Fundraising	<u>181,083</u>		<u>181,083</u>
	<u>2,988,417</u>	<u>0</u>	<u>2,988,417</u>
TOTAL EXPENSES	<u>34,708,101</u>	<u>0</u>	<u>34,708,101</u>
CHANGE IN NET ASSETS	352,691	(616,298)	(263,607)
Net assets, beginning of year	<u>3,320,441</u>	<u>1,804,894</u>	<u>5,125,335</u>
NET ASSETS, END OF YEAR	<u>\$ 3,673,132</u>	<u>\$ 1,188,596</u>	<u>\$ 4,861,728</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	28,199,269	(28,199,269)	0
TOTAL REVENUES AND OTHER SUPPORT	<u>32,997,450</u>	<u>(1,125,911)</u>	<u>31,871,539</u>
EXPENSES			
Program services	29,718,174		29,718,174
Support services:			
Management and general	2,312,742		2,312,742
Fundraising	279,007		279,007
	<u>2,591,749</u>	<u>0</u>	<u>2,591,749</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 Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

	Program Services	Support Services	Total
PERSONNEL:			
Salaries			
Attorneys	\$ 12,435,189	\$	\$ 12,435,189
Paralegals	2,638,668		2,638,668
Management		534,552	534,552
Support	1,758,521	80,966	1,839,487
Other	235,579	1,010,266	1,245,845
Accrued leave	232,306	37,860	270,166
Fringe benefits	5,397,537	483,041	5,880,578
Total personnel	<u>22,697,800</u>	<u>2,146,685</u>	<u>24,844,485</u>
OTHER EXPENSES:			
Space	1,609,608	259,526	1,869,134
Equipment	95,998	3,655	99,653
Software maintenance and support	177,344	52,323	229,667
Office supplies, equipment, printing and postage	446,216	53,932	500,148
Telephone and internet costs	454,917	55,465	510,382
Travel	113,806	6,149	119,955
Training	134,480	6,531	141,011
Library expense	244,897	12,624	257,521
General insurance	128,991	10,125	139,116
Dues and fees	164,630	29,135	193,765
Audit		44,503	44,503
Litigation	78,030	1,243	79,273
Contract services, clients:			
Paid to private attorneys	297,596		297,596
Pro bono/reduced fee services	37,972		37,972
Pro bono	1,634,855		1,634,855
Contract services, program	505,852	201,858	707,710
Subgrants/subcontracts awarded	980,670		980,670
Rental/utilities assistance payments	1,462,222		1,462,222
Other	298,449	54,722	353,171
Depreciation	146,833	49,941	196,774
Loss on disposal of equipment	8,518		8,518
Total other expenses	<u>9,021,884</u>	<u>841,732</u>	<u>9,863,616</u>
TOTAL EXPENSES	<u>\$ 31,719,684</u>	<u>\$ 2,988,417</u>	<u>\$ 34,708,101</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	217,079		217,079
Pro bono/reduced fee services	164,003		164,003
Pro bono	2,834,439		2,834,439
Contract services, program	263,871	62,810	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
Total other expenses	<u>9,440,885</u>	<u>718,624</u>	<u>10,159,509</u>
TOTAL EXPENSES	<u>\$ 29,718,174</u>	<u>\$ 2,591,749</u>	<u>\$ 32,309,923</u>

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (263,607)	\$ (438,384)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	196,774	193,144
Net (gain) loss on disposal of property and equipment	(6,895)	20,188
Decrease (increase) in operating assets:		
Receivables	(3,735,075)	(935,710)
Prepaid expenses	20,917	(809)
Deposits	(7,323)	(11,037)
Other	0	192
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	893,979	207,802
Grants payable	26,989	38,512
Deferred support	<u>10,894,112</u>	<u>(37,745)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	8,019,871	(963,847)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	15,413	0
Purchases of property and equipment	(52,763)	(324,868)
Investment in joint venture	<u>(1,500,000)</u>	<u>0</u>
NET CASH USED IN INVESTING ACTIVITIES	(1,537,350)	(324,868)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	<u>1,500,000</u>	<u>0</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,500,000	0
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,982,521	(1,288,715)
Cash and cash equivalents, beginning of year	<u>1,948,438</u>	<u>3,237,153</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>9,930,959</u>	\$ <u>1,948,438</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	\$	0	\$	0
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See independent auditors' report and notes to financial statements.

Notes to Financial Statements

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2020 and 2019

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.

Basis of Presentation: The accompanying financial statements are prepared on an accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to US generally accepted accounting principles.

Adoption of ASU 2018-08: During fiscal year 2020, LANC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies how an entity determines whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution should be considered conditional. As required by ASU 2018-08, LANC applied the requirements on a modified prospective basis to agreements that either were not complete at January 1, 2020, or were entered into after January 1, 2020. Certain transactions that were previously considered donor-restricted, nonreciprocal transactions are now considered to be reciprocal transactions and are accounted for in accordance with the guidance in ASC *Topic 605-Revenue Recognition*. The adoption of ASU 2018-08 resulted in no changes to total support and revenue recognized or total subgrants expended for the year ended December 31, 2020.

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 restrictions imposed by donors and grantors. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that require resources to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions.

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 O-- Availability and Liquidity of Assets*.)

LEGAL AID OF NORTH CAROLINA, INC.

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

Recognition of Support: LANC evaluates contributions, contracts, and grants to determine whether the transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred, or (2) a contribution. If determined to be an exchange transaction, revenue is recognized in accordance with ASC Topic 605. If the transfer of assets is determined to be a contribution, LANC evaluates whether the contribution is conditional based on whether the agreement includes both (1) one or more barriers that must be overcome and (2) either a right of return of assets transferred or a right of release from the donor's obligation to transfer assets. Grants and contributions requiring a match are considered conditional until the match is satisfied, wholly or in part, as defined by agreement. Cost-reimbursement grants are considered conditional until qualifying expenditures are incurred. Amounts received in advance of conditions being met are included in deferred support in the statement of financial position. Support from unconditional grants and contributions is recognized as an increase in either net assets without donor restrictions or net assets with donor restrictions, based on the absence or presence of any donor-imposed restrictions.

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.

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.

Recognition of Revenue: Revenue is recognized as performance obligations are satisfied, based on contract terms and conditions.

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, 2020 and 2019, cash equivalents include \$9,267,439 and \$1,661,872, 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.

LEGAL AID OF NORTH CAROLINA, INC.

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

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.

Deferred Revenue: LANC is the recipient of grants that require expenditure for specified activities before LANC is reimbursed by the grantor for the costs incurred. Documentation showing actual costs expended is included when submitting a monthly or quarterly report for reimbursement. Certain grantors pay in advance of incurring the specified costs; in those cases, the amount received in excess of amounts spent on reimbursable costs is reported as deferred revenue. Deferred revenue is expected to be recognized within one year.

Refundable Advance (PPP): LANC received a *forgivable loan* of \$3,444,300 on May 6, 2020, under the Paycheck Protection Program (PPP), a program administered through the U.S. Small Business Administration and created with the enactment of the Coronavirus Aid, Relief, and Economy Security Act (the CARES Act). Management expects the loan to be eligible for forgiveness, based on LANC's use of all proceeds therefrom to fund eligible payroll and other qualifying expenses within twenty-four weeks of receipt. LANC has elected to account for the forgivable loan as a conditional contribution, in accordance with ASC Subtopic 958-605.

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 \$32,717 and a net book value of \$8,518 were written-off in 2020 based on management's identification of assets no longer used by LANC.

Investment in Joint Venture: LANC accounts for its interests in joint venture companies using the equity method. The carrying value of the investments approximate LANC's contributed capital, plus their prorata share of net operating results, less dividends.

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 program and support services based on estimated usage and/or estimated 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, 2020 and 2019, due to the short-term maturity of these financial instruments. Refer also to *Note N--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 for comparative purposes to conform with the presentation in the current-year financial statements.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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

Upcoming Adoptions of New Accounting Standards: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021, as most recently deferred by ASU 2020-05. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of the adoption of the new standard, including amendments thereto, on future 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>2020</u>	<u>2019</u>
Basic Grant	\$ 9,035,721	\$ 11,802,933
Migrant Workers	320,957	461,988
Native Americans	256,747	242,593
COVID-19 Basic	1,300,976	0
COVID-19 Migrant	25,261	0
COVID-19 Native American	10,358	0
Disaster	1,866,165	0
Telework Capacity Building	25,000	0
Technology	149,821	182,000
Technology	(2,606)*	(149,821)*
	<u>\$ 12,988,400</u>	<u>\$ 12,539,693</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 2020 and 2019, 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 2020 and 2019, 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.

In September 2020, LANC received state funding from the North Carolina Office of Recovery and Resiliency (for an amount not to exceed \$27,487,162) as a result of the COVID-19 pandemic. These funds were used to make emergency assistance payments to prevent evictions and utility disconnections and encourage housing stability in response to the COVID-19 crisis. As of December 31, 2020, LANC has received \$4,371,790.

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 \$821,000 and \$963,000 was recognized as support for the years ended December 31, 2020 and 2019, respectively, as a result of these efforts. The 2020 and 2019, amount includes approximately \$135,000 and \$254,000 in Cy Pres award, respectively. 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. LANC had no income subject to taxation as unrelated business income for the years ended December 31, 2020 and 2019. Filings for tax years 2017 and later remain open and subject to examination.

NOTE D -- EMPLOYEE BENEFITS

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 \$718,564 for 2020 and \$665,112 for 2019. No matching contributions were approved for 2020 and 2019.

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, 2020 and 2019, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$3,845,596 and \$3,371,597, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2020</u>	<u>2019</u>
Claims paid, net beginning of year IBNR accrual	\$ 2,693,092	\$ 2,683,917
Less: Reimbursements over stop-loss	(97,199)	(207,292)
Employee withholdings for premiums	(382,452)	(350,412)
Stop-loss premiums, network and administrative fees	730,032	617,048
IBNR accrual, December 31	<u>344,739</u>	<u>289,092</u>
	<u>\$ 3,288,212</u>	<u>\$ 3,032,353</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE E -- LSC FUND BALANCE AND PAI RECAPTURE (including subsequent events)

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 is reporting a combined LSC fund balance at December 31, 2020, of approximately 27%, in the amount of \$3,623,834. Due to the extraordinary and compelling circumstances of the COVID-19 crisis, LSC determined per waiver blanket approval that all recipients with a December 31, 2020 year end will be allowed to carry over any excess LSC fund balance for that fiscal year, regardless of the amount. LANC did not exceed LSC's 10% limitation at December 31, 2019.

LSC policy requires that LANC spend an amount equal to 12.5% of their LSC Basic Field Grant on Private Attorney Involvement ("PAI") activities. LANC is reporting a \$102,290 deficit of PAI expenses as of December 31, 2020. Subsequent to year-end, LANC requested and received from LSC a waiver to add this shortfall to LANC's 2021 PAI requirement. PAI expenses incurred by LANC exceeded the 12.5% minimum required by the LSC grant for the year ended December 31, 2019.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 38% and 39% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2020 and 2019, respectively. Refer also to *Note K--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

	2020			2019		
	<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	\$ 992,249	\$ 772,335	\$ 1,764,584	\$ 961,594	\$ 802,990
Building improvements	408,866	304,163	104,703	402,366	286,334	116,032
Leasehold improvements	48,868	28,688	20,180	48,868	25,733	23,135
Equipment and furniture	421,199	329,821	91,378	429,227	303,720	125,507
Vehicles	22,361	22,361	0	22,361	22,361	0
Website	0	0	0	0	0	0
Software	24,272	8,091	16,181	0	0	0
Construction in progress	8,840	0	8,840	4,917	0	4,917
	<u>\$ 2,698,990</u>	<u>\$ 1,685,373</u>	<u>\$ 1,013,617</u>	<u>\$ 2,672,323</u>	<u>\$ 1,599,742</u>	<u>\$ 1,072,581</u>

Non-LSC Property

	2020			2019		
	<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	\$ 96,145	\$ 224,686	\$ 320,831	\$ 88,749	\$ 232,082
Building improvements	204,559	138,712	65,847	204,559	128,434	76,125
Leasehold improvements	129,944	128,934	1,010	129,944	127,924	2,020
Equipment and furniture	358,899	258,226	100,673	350,281	208,388	141,893
Vehicles	162,029	112,760	49,269	178,622	94,763	83,859
Website	138,530	138,530	0	138,530	138,530	0
Software	1,278	426	852	0	0	0
Construction in progress	302,077	0	302,077	302,000	0	302,000
	<u>\$ 1,618,147</u>	<u>\$ 873,733</u>	<u>\$ 744,414</u>	<u>\$ 1,624,767</u>	<u>\$ 768,788</u>	<u>\$ 837,979</u>
<u>Total Property</u>	<u>\$ 4,317,137</u>	<u>\$ 2,559,106</u>	<u>\$ 1,758,031</u>	<u>\$ 4,297,090</u>	<u>\$ 2,386,530</u>	<u>\$ 1,910,560</u>

Depreciation and amortization totaled \$196,774 and \$193,144 for the years ended December 31, 2020 and 2019, respectively.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE H -- INVESTMENT IN JOINT VENTURE

During December 2020, LANC became a party to a joint venture agreement with a North Carolina investment group, whereby LANC is a 50% member in LANC 5525 Albemarle, LLC (“Investee” and “joint venture”) at December 31, 2020. The joint venture was formed to construct an office building in Charlotte, North Carolina.

Investee results: The Investee reported the following financial results as of December 31, 2020:

<u>Financial Position:</u>	
Total assets	\$ 3,019,273
Total liabilities	19,273
Members’ equity	3,000,000
 <u>Operating Results:</u>	
Net income/(loss)	\$ 0

LANC’s investment in the joint venture includes the following:

Capital contribution	\$ 1,500,000
Prorata share of joint venture’s net income	0
	<u>\$ 1,500,000</u>

NOTE I -- 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,	
	2020	2019
LSC (including interest in fixed assets)	\$ 13,310,042	\$ 13,714,835
IOLTA	1,767,181	1,858,011
State	2,197,961	0
Title III	322,892	582,176
Family Violence	6,648,624	7,578,000
United Way	335,689	446,636
Other	4,033,353	4,045,740
Property:		
Depreciation and (gain) loss on disposal	205,292	213,332
LSC interest in fixed assets	<u>(146,328)</u>	<u>(239,461)</u>
	<u>\$ 28,674,706</u>	<u>\$ 28,199,269</u>

NOTE J -- 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:

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE J -- NET ASSETS WITH DONOR RESTRICTIONS -- Continued

	December 31,	
	<u>2020</u>	<u>2019</u>
LSC	\$ 0	\$ 21,721
IOLTA	0	30,368
Title III	57,395	26,915
Family Violence	19,543	5,741
United Way	34,278	0
Other	63,763	647,568
Property	<u>1,013,617</u>	<u>1,072,581</u>
	<u>\$ 1,188,596</u>	<u>\$ 1,804,894</u>

NOTE K -- CONDITIONAL PROMISES TO GIVE

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

<u>Grant Awards</u>	<u>2020</u>	<u>2019</u>
LSC	\$ 13,986,722	\$ 13,237,257
LSC – Disaster	0	4,836,024
LSC – Technology	0	149,821
NC IOLTA	1,808,025	1,785,500
Statewide Navigator	392,375	846,086
NC Department of Public Safety (VOAD)	282,497	0
NCORR (HOPE)	7,700,000	0
Family Violence Prevention (FVPE)	50,310	106,025
GCC VOCA (Statewide)	4,957,306	2,633,540
GCC VOCA (DVAC)	0	202,667
GCC VOCA BIP	910,453	396,567
GCC VOCA Human Trafficking	162,220	394,288
GCC VOCA Elder Abuse	689,790	250,863
VOCA Financial Exploitation	425,643	969,369
Interact VOCA	105,000	43,945
Interact OVW	101,702	43,913
NCCADV VOCA	0	51,845
DCRC VOCA	141,154	53,040
Harbor VOCA	0	35,234
Forsyth County VAWA	0	36,700
City of Durham – Eviction Diversion	52,616	0
City of Raleigh - CDBG	586,106	0
City of Raleigh - ESG	216,000	0
Wake County – ESG	967,349	0
HUD Fair Housing Initiative EOI	95,279	58,971
HUD Fair Housing Initiative PEI	178,147	505,765
Cone Health Foundation	0	82,607
Mecklenburg County	602,544	552,018
Vanderbilt University Law School	0	26,000
City of Raleigh	15,000	25,000
United Way	73,000	219,578
Title III	<u>280,980</u>	<u>19,930</u>
	<u>\$ 34,780,218</u>	<u>\$ 27,562,553</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE K -- CONDITIONAL PROMISES TO GIVE -- Continued

Conditional promises to give (made by LANC) include the following at December 31, 2020: Statewide Navigator subawards of \$170,732, HUD - EOI subawards of \$5,538, and HUD – PEI subawards of \$13,590.

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2020 and 2019, respectively. Refer also to Note A for LANC’s policy regarding the “Recognition of Support” and to Note B for a description of LANC’s more significant funding sources.

NOTE L -- LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Note payable to a bank under a term loan agreement, effective December 8, 2020, twelve consecutive interest only payments beginning January 8, 2021, commencing January 8, 2022 monthly installments of \$16,038 including interest at the higher of the bank’s LIBOR rate or 3.25% (3.25% at December 31, 2020), with a final payment due December 8, 2030. The funding agreement allowed for maximum borrowings up to \$3,400,000. At December 31, 2020, \$1,500,000 had been drawn on this note. Collateralized by real property located at 224 S. Dawson St. Raleigh, NC.	\$ 1,500,000	\$ 0
Less: Current installments	<u>0</u>	<u>0</u>
	<u>\$ 1,500,000</u>	<u>\$ 0</u>
	<u>Maturing</u>	
<u>Year Ending December 31</u>	<u>Principal</u>	
2021	\$ 0	
2022	145,862	
2023	150,674	
2024	155,645	
2025	160,779	
Thereafter	<u>887,040</u>	
	<u>\$ 1,500,000</u>	

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE M -- OPERATING LEASES

Certain of the LANC offices lease facilities and equipment under operating leases expiring at various times through 2030. At December 31, 2020, future minimum rentals under the long-term leases including effects of the subsequent lease are as follows:

2021	\$ 1,391,568
2022	858,769
2023	638,033
2024	488,762
2025	476,267
Thereafter	<u>1,498,698</u>
	<u>\$ 5,352,097</u>

Lease expense approximated \$1,365,000 and \$1,145,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE N -- 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, 2020 and 2019:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2020</u>				
Cash equivalents (Note A)	\$ <u>9,267,439</u>	\$ <u>0</u>	\$ <u>9,267,439</u>	\$ <u>0</u>
<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>

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, 2020 and 2019, 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, 2020 and 2019.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE O -- AVAILABILITY AND LIQUIDITY OF ASSETS

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end (cash and cash equivalents and receivables)	\$ 17,114,014	\$ 5,372,617
Less those unavailable for general expenditures within one year, due to:		
Net assets with donor-imposed purpose restrictions	<u>(1,188,596)</u>	<u>(1,804,894)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,925,418</u>	<u>\$ 3,567,723</u>

A significant portion of LANC's annual operating budget is spent on program grants. 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.

NOTE P -- COVID RESPONSE

COVID-19: On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic. The State of North Carolina operated under a "Stay at Home" order from March 27, 2020 to May 8, 2020 during which only *essential* service providers were permitted to have their employees continue to work on-site. North Carolina courts were closed from April 2020 to July 2020.

LANC closed its physical offices on March 16, 2020 due to the pandemic. LANC maintained full operations and LANC employees continued to work remotely to provide program and support services to clients via phone, video conferences, and e-mail.

On May 6, 2020, the Organization received a *forgivable loan* of \$3,444,300 under the Paycheck Protection Program (PPP), a program administered through the U.S. Small Business Administration and created with the enactment of the Coronavirus Aid, Relief, and Economy Security Act (the CARES Act). Management expects the PPP loan to be eligible for forgiveness based on Organization's use of all proceeds to fund eligible payroll and other qualifying expenses within twenty-four weeks of receipt. Eligible expenses of \$3,444,300 were incurred through December 31, 2020.

Management continues to monitor the situation; however, the resulting impact of COVID-19 on the Organization's operations cannot be reasonably estimated at this time.

NOTE Q -- EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 23, 2021, the date on which financial statements were available for issue.

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

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	\$ 13,336,574	*
U.S. Department of Justice:			
Legal Assistance for Victims:			
30th Judicial District DV Alliance (OVW)	16.524	19,910	
Interact (OVW)	16.590	62,265	
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	3,766,279	*
Matching assistance:			
Cash	matching	95,424	
Non-cash	matching	44,855	
		<u>140,279</u>	
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	208,706	
Matching assistance:			
Cash	matching	10,184	
Non-cash	matching	3,929	
		<u>14,113</u>	
Domestic Violence Advocacy Center (VOCA): Battered Immigrant Project			
Program expenditures	16.575	532,577	
Matching assistance:			
Cash	matching	15,456	
		<u>15,456</u>	
Domestic Violence Advocacy Center (VOCA): Human Trafficking			
Program expenditures	16.575	232,069	
Matching assistance:			
Cash	matching	9,229	
		<u>9,229</u>	
Domestic Violence Advocacy Center (VOCA): Elder Abuse			
Program expenditures	16.575	363,895	
Matching assistance:			
Non-cash	matching	459	
		<u>459</u>	
Domestic Violence Advocacy Center (VOCA): Financial Exploitation			
Program expenditures	16.575	330,808	
Domestic Violence Advocacy Center (VOCA): NCADV			
Program expenditures	16.575	51,844	
Domestic Violence Advocacy Center (VOCA): DCRC			
Program expenditures	16.575	73,285	
Domestic Violence Advocacy Center (VOCA): Interact			
Program expenditures	16.575	58,948	
Domestic Violence Advocacy Center (VOCA): Harbor			
Program expenditures	16.575	57,177	
Matching assistance:			

* 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 expenditures of federal, state and other awards.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

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	603,711	424,545
<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	292,220	
Cash matching assistance	matching	30,673	
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671	62,000	
Cash matching assistance	matching	5,590	
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418	327,618	39,157
Education and Outreach Project	14.416	89,136	3,983
Treasury Coronavirus Relief Funds &			
HUD Community Development Block Grant	14.228	2,137,969 *	
City of Raleigh CDBG funds from HUD	14.218	47,594	
Wake County Emergency Services funds from HUD	14.231	32,651	
<u>U.S. Department of Agriculture:</u>			
The Rural Community Development Initiative (RCDI):			
Program expenditures	10.446	6,130	
Non-cash matching assistance	matching	6,130	
Total Expenditures of Federal Awards		\$ <u>22,693,366</u>	
Total Federal Matching Assistance		\$ <u>221,929</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 expenditures of federal, state and other awards.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

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 Department of Public Safety: Emergency Management VOAD	\$ 67,503	\$ 59,992	
North Carolina State Bar: Domestic Violence Victim Assistance Act	\$ 685,253	\$ 656,276	
	<u>752,756</u>	<u>716,268</u>	
Total State Awards	\$ <u>752,756</u>	\$ <u>716,268</u>	
OTHER AWARDS:			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	1,000,000	1,000,000	
Volunteer Lawyer Program	225,000	225,000	
Strategic Planning	67,000	25,482	
Home Defense	406,133	397,284	
Community Redevelopment	100,000	96,867	
FPLC Community Redevelopment	<u>22,500</u>	<u>22,549</u>	
Total Other Awards	\$ <u>1,820,633</u>	\$ <u>1,767,182</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 expenditures of federal, state and other awards.

Notes to Schedule of Expenditures of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of expenditures 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 expenditures 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	\$ 39,157
14.416	Education and Outreach Project	3,983
93.332	Statewide Navigator	424,545

NOTE C -- INDIRECT COST RATE

LANC has adopted the de minimis indirect cost rate of 10% of Modified Total Direct Costs for federal grants. For all other funding sources that allow indirect costs, LANC charges indirect costs as a percentage of actual indirect costs to total costs; 10% for 2020, or up to the maximum allowed by the funding source if less than 10%.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

	Basic Field	Migrant	Native American	COVID-19 Basic Field	COVID-19 Migrant	COVID-19 Native American	Technology Initiative	Disaster	Telework Capacity	Total
SUPPORT, REVENUES AND OTHER INCOME:										
LSC grants	\$ 9,035,721	\$ 320,957	\$ 256,747	\$ 1,300,976	\$ 25,261	\$ 10,358	\$ 147,215	\$ 1,866,165	\$ 25,000	\$ 12,988,400
Donated services	1,623,584									1,623,584
Attorney fees / damages	14,939	483								15,422
Interest income	74,374									74,374
Rental income	253,352									253,352
Other revenue and support	(16,695)									(16,695)
Total Support and Revenue	10,985,275	321,440	256,747	1,300,976	25,261	10,358	147,215	1,866,165	25,000	14,938,437
EXPENSES:										
Personnel expenses:										
Salaries:										
Attorney	3,190,239	89,321	92,058	530,025	8,891	5,654		836,463		4,752,651
Paralegal	659,513	57,229	30,084	104,788	4,003	74		268,660		1,124,351
Management	247,744						288			248,032
Support	552,313		29,493	42,163		91	17,233	76,216		717,509
Other salaries	476,653						1,309			477,962
Accrued leave	268,393	1,773								270,166
Fringe benefits	2,036,859	57,415	53,196	350,613	6,260	1,951	6,385	414,970		2,927,649
Total Personnel Expenses	7,431,714	205,738	204,831	1,027,589	19,154	7,770	25,215	1,596,309	0	10,518,320
Nonpersonnel expenses:										
Space	895,561	39,621	14,088	59,118	950	456		124,901		1,134,695
Equipment	44,881	400	1,196	9,900	1,455	35		3,738		61,605
Software maintenance and support	146,664	2,700	1,287	7,292	119	22		6,875		164,959
Office supplies, printing/ and postage	126,168	14,888	3,451	48,998	840	647		52,435	23,590	271,017
Telephone and internet costs	152,642	10,318	4,064	25,166	233	137		39,151	1,410	233,121
Travel	49,168	876		444		273		23,012		73,773
Training	41,207	(1,046)	471	260			2,000	9,479		52,371
Library expense	160,819	4,107	2,573	12,606	207	76				180,388
General insurance	95,285	4,592	972	6,388	101	4				107,342
Dues and fees	50,581	1,857	1,298	8,201	128	10		2,275		64,350
Audit	35,774									35,774
Litigation	62,172	1,025			125			148		63,470

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, 2020

	Basic Field	Migrant	Native American	COVID-19 Basic Field	COVID-19 Migrant	COVID-19 Native American	Technology Initiative	Disaster	Telework Capacity	Total
Contract services, clients:										
Paid to private attorneys										0
Pro Bono	1,623,584									1,623,584
Contract services, programs	131,251			350			120,000	297		251,898
Indirect costs allocated	(290,569)	29,238	21,500	87,647	1,827	900				(149,457)
Other	212,906	7,126	1,016	7,017	122	28		1,974		230,189
Total Nonpersonnel Expenses	<u>3,538,094</u>	<u>115,702</u>	<u>51,916</u>	<u>273,387</u>	<u>6,107</u>	<u>2,588</u>	<u>122,000</u>	<u>264,285</u>	<u>25,000</u>	<u>4,399,079</u>
Total Expenses	<u>10,969,808</u>	<u>321,440</u>	<u>256,747</u>	<u>1,300,976</u>	<u>25,261</u>	<u>10,358</u>	<u>147,215</u>	<u>1,860,594</u>	<u>25,000</u>	<u>14,917,399</u>
Support and revenue over expenses	15,467	0	0	0	0	0	0	5,571	0	21,038
Purchase of equipment	<u>(37,188)</u>							<u>(5,571)</u>		<u>(42,759)</u>
Change in net assets	(21,721)	0	0	0	0	0	0	0	0	(21,721)
Total net assets:										
Beginning of period	<u>21,721</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>21,721</u>
End of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Unexpended LSC Basic Field Grant award amount per Basic Field Grant award type in relation to 45 C.F.R. Part 1628.
These amounts are included in deferred revenue as of December 31, 2020:

	2020
General	<u>3,455,848</u>
Agricultural Worker	<u>167,986</u>
Native American	<u>0</u>
	<u>3,623,834</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, 2020

SUPPORT

Basic Field grant = \$12,491,567 x 12.5%	\$ 1,561,446
Total Support	<u>\$ 1,561,446</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 261,485
Paralegals	145,266
Management and support staff	<u>282,783</u>
	<u>689,534</u>

Fringe benefits	<u>227,546</u>
Total Personnel Expenses	<u>917,080</u>

Nonpersonnel Expenses:

Payments to private attorneys	297,596
Other contract services	23,460
Nonpersonnel expenses	<u>221,020</u>
Total Nonpersonnel Expenses	<u>542,076</u>

Total Expenses	<u>\$ 1,459,156</u>
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Net PAI expenses under the requirement threshold	<u>\$ 102,290</u>
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Refer also to Note E - LSC FUND BALANCE AND PAI RECAPTURE

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—a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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, 2021.

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) as a basis for designing 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 financial statements. 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 23, 2021



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, 2020. 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, 2020.

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.

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

Raleigh, North Carolina
April 23, 2021

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2020

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

CFDA Number(s)

09.634032

93.332

21.019/14.228

Name of Federal Program or Cluster

Legal Services Corporation Act

Cooperative Agreement to Support Navigators in Federally-Facilitated and State Partnership Exchanges

Treasury Coronavirus Relief Funds and HUD Community Development Block Grant

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, 2020

There are no matters to report.