

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2021 and 2020**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2021 and 2020

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 Audit of the Financial Statements

Opinion

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, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Legal Aid of North Carolina, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legal Aid of North Carolina, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Aid of North Carolina, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Independent Auditors' Report--Continued

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Legal Aid of North Carolina, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Aid of North Carolina, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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, 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 ended December 31, 2021, 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 schedule of expenditures of federal, state, and other awards 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 20, 2022 on our consideration of the 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.

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

Raleigh, North Carolina
April 20, 2022

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,520,691	\$ 9,930,959
Client escrow funds	43,791	49,703
Receivables:		
Grants and contracts	8,642,284	6,998,204
Sales tax	46,569	25,021
Other	128,585	184,851
Prepaid expenses	61,968	56,227
Deposits	63,875	66,029
Investment in joint venture	<u>2,250,000</u>	<u>1,500,000</u>
TOTAL CURRENT ASSETS	17,757,763	18,810,994
PROPERTY AND EQUIPMENT		
Land and buildings	2,085,415	2,085,415
Building improvements	615,261	613,425
Leasehold improvements	194,167	178,812
Equipment and furniture	670,729	780,098
Vehicles	191,912	184,390
Website	195,405	138,530
Software	411,600	25,550
Construction in progress	<u>913,024</u>	<u>310,917</u>
	5,277,513	4,317,137
Accumulated depreciation	<u>(2,741,298)</u>	<u>(2,559,106)</u>
	<u>2,536,215</u>	<u>1,758,031</u>
TOTAL ASSETS	\$ <u>20,293,978</u>	\$ <u>20,569,025</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 286,130	\$ 577,402
Client deposits	43,791	49,703
Accrued vacation	1,198,137	1,033,198
Other accrued liabilities	1,406,271	1,253,479
Subcontracts/subgrants payable	555,034	232,924
Deferred support/revenue	7,692,491	11,060,591
Note payable, current portion	<u>123,572</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	11,305,426	14,207,297
Note payable, less current portion	<u>3,276,428</u>	<u>1,500,000</u>
TOTAL LIABILITIES	14,581,854	15,707,297
NET ASSETS		
Without donor restrictions:		
Property and equipment	649,497	744,414
Other net assets - without donor restrictions	<u>4,172,507</u>	<u>2,928,718</u>
	4,822,004	3,673,132
With donor restrictions:		
Property and equipment	973,694	1,013,617
Other net assets - with donor restrictions	<u>(83,574)</u>	<u>174,979</u>
	<u>890,120</u>	<u>1,188,596</u>
TOTAL NET ASSETS	5,712,124	4,861,728
TOTAL LIABILITIES AND NET ASSETS	\$ <u>20,293,978</u>	\$ <u>20,569,025</u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 18,606,566	\$ 18,606,566
Non-LSC grants and contracts	309,952	25,846,636	26,156,588
Matching assistance		76,211	76,211
Donations and contributions:			
Other	1,683,182	4,360	1,687,542
Donated services	1,347,828		1,347,828
Attorney fees / damages		4,715	4,715
Interest income		15,968	15,968
Rental income		226,820	226,820
Proceeds from disposal of property and equipment		5,400	5,400
Other revenue and support	8	18,902	18,910
Net assets released from restrictions:			
Satisfaction of purpose restrictions	45,104,054	(45,104,054)	0
TOTAL REVENUES AND OTHER SUPPORT	48,445,024	(298,476)	48,146,548
EXPENSES			
Program services	43,006,910		43,006,910
Support services:			
Management and general	4,000,662		4,000,662
Fundraising	288,580		288,580
	4,289,242	0	4,289,242
TOTAL EXPENSES	47,296,152	0	47,296,152
CHANGE IN NET ASSETS	1,148,872	(298,476)	850,396
Net assets, beginning of year	3,673,132	1,188,596	4,861,728
NET ASSETS, END OF YEAR	\$ 4,822,004	\$ 890,120	\$ 5,712,124

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 Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

	Program Services	Support Services	Total
PERSONNEL:			
Salaries			
Attorneys	\$ 13,987,217	\$	\$ 13,987,217
Paralegals	3,197,271		3,197,271
Management		547,457	547,457
Support	1,642,801	53,770	1,696,571
Other	800,214	1,664,723	2,464,937
Accrued leave	138,102	26,838	164,940
Fringe benefits	6,616,296	800,060	7,416,356
Total personnel	<u>26,381,901</u>	<u>3,092,848</u>	<u>29,474,749</u>
OTHER EXPENSES:			
Space	1,749,558	228,737	1,978,295
Equipment	134,658	15,943	150,601
Software maintenance and support	288,503	41,617	330,120
Office supplies, equipment, printing and postage	589,700	55,971	645,671
Telephone and internet costs	546,604	52,270	598,874
Travel	151,401	7,752	159,153
Training	66,194	16,809	83,003
Library expense	223,407	13,361	236,768
General insurance	129,732	29,383	159,115
Dues and fees	156,732	33,939	190,671
Audit		50,305	50,305
Litigation	225,813	1,743	227,556
Contract services, clients:			
Paid to private attorneys	242,140		242,140
Pro bono/reduced fee services			0
Pro bono	1,347,828		1,347,828
Contract services, program	998,974	346,735	1,345,709
Subgrants/subcontracts awarded	1,886,930		1,886,930
Rental/utilities assistance payments	7,401,359		7,401,359
Other	206,562	145,750	352,312
Interest expense	71,733		71,733
Depreciation	174,983	156,079	331,062
Loss on disposal of equipment	32,198		32,198
Total other expenses	<u>16,625,009</u>	<u>1,196,394</u>	<u>17,821,403</u>
TOTAL EXPENSES	<u>\$ 43,006,910</u>	<u>\$ 4,289,242</u>	<u>\$ 47,296,152</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	1,605,816	259,526	1,865,342
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
Interest expense	3,792		3,792
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.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 850,396	\$ (263,607)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	331,062	196,774
Net loss (gain) on disposal of property and equipment	26,798	(6,895)
Decrease (increase) in operating assets:		
Receivables	(1,609,362)	(3,735,075)
Prepaid expenses	(5,741)	20,917
Deposits	2,154	(7,323)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	26,459	893,979
Grants payable	322,110	26,989
Deferred support	<u>(3,368,100)</u>	<u>10,894,112</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(3,424,224)	8,019,871
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	5,400	15,413
Purchases of property and equipment	(1,141,444)	(52,763)
Investment in joint venture	<u>(750,000)</u>	<u>(1,500,000)</u>
NET CASH USED IN INVESTING ACTIVITIES	(1,886,044)	(1,537,350)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	<u>1,900,000</u>	<u>1,500,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,900,000	1,500,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,410,268)	7,982,521
Cash and cash equivalents, beginning of year	<u>9,930,959</u>	<u>1,948,438</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>6,520,691</u>	\$ <u>9,930,959</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 66,009	\$ 0

See independent auditors' report and notes to financial statements.

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2021 and 2020

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*.)

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.

LEGAL AID OF NORTH CAROLINA, INC.

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

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, 2021 and 2020, cash equivalents include \$6,336,343 and \$9,267,439, 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. LANC 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.

LEGAL AID OF NORTH CAROLINA, INC.

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

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). LANC elected to account for the forgivable loan as a conditional contribution for the year ended December 31, 2020, in accordance with ASC Subtopic 958-605. Refer also to *Note P--Covid Response*.

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 \$153,568 and a net book value of \$4,698 were written-off in 2021 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, 2021 and 2020, 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.

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.

LEGAL AID OF NORTH CAROLINA, INC.

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,	
	2021	2020
Basic Grant	\$ 15,456,391	\$ 9,035,721
Migrant Workers	513,952	320,957
Native Americans	236,292	256,747
COVID-19 Basic	0	1,300,976
COVID-19 Migrant	25,662	25,261
COVID-19 Native American	19,620	10,358
Disaster	2,352,043	1,866,165
Telework Capacity Building	0	25,000
Technology	2,606	149,821
Technology	0	(2,606)*
	<u>\$ 18,606,566</u>	<u>\$ 12,988,400</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 2021 and 2020, LANC also received state contracts (or awards) to participate in the North Carolina State Home Foreclosure Prevention Project.

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

In 2021 and 2020, 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 ("NCORR") as a result of the COVID-19 pandemic. These funds were used to make emergency rental assistance payments to prevent evictions and utility disconnections and encourage housing stability in response to the COVID-19 crisis. LANC was selected by NCORR to serve as one of the many community agencies to administer emergency rental assistance under the program named HOPE. LANC was assigned 27 counties in the western part of the state along with some major metropolitan areas. The funding was primarily pass-through emergency rental assistance for households in arrears due to the impact of the pandemic. LANC received approximately \$2,000,000 in advance to cover initial staffing costs, operational costs, and rental payments to tenants. Subsequent payments were paid upon submission of invoices from LANC. The HOPE project was terminated when all funds across the state were depleted. LANC administered payments of over \$7,000,000 to approximately 14,000 households over the project period.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE B -- FUNDING -- Continued

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 \$1,591,988 and \$821,000 was recognized as support for the years ended December 31, 2021 and 2020, respectively, as a result of these efforts. The 2021 and 2020, amount includes approximately \$792,067 and \$135,000 in Cy Pres award, respectively. These funds were from residuals of various class action cases.

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, 2021 and 2020. Filings for tax years 2018 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 \$776,705 for 2021 and \$718,564 for 2020. No matching contributions were approved for 2021 and 2020.

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, 2021 and 2020, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$4,633,527 and \$3,845,596, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2021</u>	<u>2020</u>
Claims paid, net beginning of year IBNR accrual	\$ 3,827,914	\$ 2,683,092
Less: Reimbursements over stop-loss	(222,443)	(97,199)
Employee withholdings for premiums	(453,565)	(382,452)
Stop-loss premiums, network and administrative fees	890,084	730,032
IBNR accrual, December 31	<u>438,357</u>	<u>344,739</u>
	<u>\$ 4,480,347</u>	<u>\$ 3,288,212</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, 2021. LANC reported 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 were allowed to carry over any excess LSC fund balance for that fiscal year, regardless of the amount. The December 31, 2020 excess funds were spent during the year ended December 31, 2021 per the waiver request letter as follows:

Salaries:	
Lawyer	\$ 1,645,451
Paralegal	377,873
Management	7,900
Support	204,257
Other	77,848
Fringe benefits	661,519
Non-personnel	<u>648,986</u>
	<u>\$ 3,623,834</u>

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, including the \$102,290 deficit from 2020, required by the LSC grant for the year ended December 31, 2021. LANC reported a \$102,290 deficit of PAI expenses as of December 31, 2020. LANC requested and received from LSC a waiver to add this shortfall to LANC's 2021 PAI requirement.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 39% and 38% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2021 and 2020, 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

	2021			2020		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Land and buildings	\$ 1,764,584	\$ 1,022,904	\$ 741,680	\$ 1,764,584	\$ 992,249	\$ 772,335
Building improvements	408,098	305,132	102,966	408,866	304,163	104,703
Leasehold improvements	62,534	33,010	29,524	48,868	28,688	20,180
Equipment and furniture	319,170	261,952	57,218	421,199	329,821	91,378
Vehicles	1,883	376	1,507	22,361	22,361	0
Website	0	0	0	0	0	0
Software	73,335	32,536	40,799	24,272	8,091	16,181
Construction in progress	0	0	0	8,840	0	8,840
	<u>\$ 2,629,604</u>	<u>\$ 1,655,910</u>	<u>\$ 973,694</u>	<u>\$ 2,698,990</u>	<u>\$ 1,685,373</u>	<u>\$ 1,013,617</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE G -- NET ASSETS RELATED TO PROPERTY AND EQUIPMENT -- Continued

Non-LSC Property

	2021			2020		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Land and buildings	\$ 320,831	\$ 103,541	\$ 217,290	\$ 320,831	\$ 96,145	\$ 224,686
Building improvements	207,163	149,250	57,913	204,559	138,712	65,847
Leasehold improvements	131,633	130,113	1,520	129,944	128,934	1,010
Equipment and furniture	351,559	288,820	62,739	358,899	258,226	100,673
Vehicles	190,029	142,995	47,034	162,029	112,760	49,269
Website	195,405	157,488	37,917	138,530	138,530	0
Software	338,265	113,181	225,084	1,278	426	852
Construction in progress	913,024	0	913,024	302,077	0	302,077
	<u>\$ 2,647,909</u>	<u>\$ 1,085,388</u>	<u>\$ 1,562,521</u>	<u>\$ 1,618,147</u>	<u>\$ 873,733</u>	<u>\$ 744,414</u>
<u>Total Property</u>	<u>\$ 5,277,513</u>	<u>\$ 2,741,298</u>	<u>\$ 2,536,215</u>	<u>\$ 4,317,137</u>	<u>\$ 2,559,106</u>	<u>\$ 1,758,031</u>

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

	December 31,	
	2021	2020
Property and equipment, net of accumulated depreciation	\$ 2,536,215	\$ 1,758,031
Less related outstanding debt	(913,024)	0
	<u>\$ 1,623,191</u>	<u>\$ 1,758,031</u>
Without donor restrictions	\$ 649,497	\$ 744,414
With donor restrictions	973,694	1,013,617
	<u>\$ 1,623,191</u>	<u>\$ 1,758,031</u>

Depreciation and amortization expense totaled \$331,062 and \$196,774 for the years ended December 31, 2021 and 2020, respectively.

NOTE H -- INVESTMENT IN JOINT VENTURE (Including a subsequent event)

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. The building has been completed and LANC started occupying the space in mid-January 2022 as a tenant. Refer also to *Note M--Operating Leases*.

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

	2021	2020
<u>Financial Position:</u>		
Total assets	\$ 4,501,000	\$ 3,019,273
Total liabilities	1,000	19,273
Members' equity	4,500,000	3,000,000
<u>Operating Results:</u>		
Net income	\$ 0	\$ 0

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

Capital contribution	\$ 2,250,000	\$ 1,500,000
Prorata share of joint venture's net income	0	0
	<u>\$ 2,250,000</u>	<u>\$ 1,500,000</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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,	
	2021	2020
LSC (including interest in fixed assets)	\$ 18,878,371	\$ 13,310,042
IOLTA	1,882,995	1,767,181
State	10,193,224	2,197,961
Title III	873,234	322,892
Family Violence	6,365,141	6,648,624
United Way	623,246	335,689
Other	6,247,920	4,033,353
Property:		
Depreciation and gain on disposal	363,260	205,292
LSC interest in fixed assets	<u>(323,337)</u>	<u>(146,328)</u>
	<u>\$ 45,104,054</u>	<u>\$ 28,674,706</u>

NOTE J -- NET ASSETS WITH DONOR RESTRICTIONS (Including a subsequent event)

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,	
	2021	2020
State	\$ (86,683)	\$ 0
Title III	625	57,395
Family Violence	14,822	19,543
United Way	0	34,278
Other	(12,338)	63,763
Property	<u>973,694</u>	<u>1,013,617</u>
	<u>\$ 890,120</u>	<u>\$ 1,188,596</u>

At December 31, 2021, the NCORR Eviction Diversion rental assistance project has a deficit of \$86,683. This contract began in September 2021 and is billed at standard hourly rates stipulated in the contract. LANC incurred up-front equipment costs that will be recovered over the course of the project. LANC has been in negotiations with NCORR about fully recouping all costs incurred to date. As of April 1, 2022, LANC has completed its negotiations with NCORR regarding how the eviction diversion work would be reimbursed. NCORR agreed to pay for all work through June 2022, when the project ends. It is anticipated that the rates charged will fully cover the expenses of the project. It is also anticipated that the project will show a positive fund balance once the first quarter 2022 revenue and expenses are recorded. Refer also to *Note K--Conditional Promises to Give*.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE K -- CONDITIONAL PROMISES TO GIVE

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

Grant Awards	2021	2020
LSC	\$ 14,966,393	\$ 13,986,722
NC IOLTA	1,919,700	1,808,025
Statewide Navigator	4,437,005	392,375
NC Department of Public Safety (VOAD)	166,196	282,497
NCORR Eviction Diversion	1,322,384	0
NCORR (HOPE)	0	7,700,000
Family Violence Prevention (FVPE)	60,868	50,310
GCC VOCA (Statewide)	2,950,725	4,957,306
GCC VOCA BIP	398,498	910,453
GCC VOCA Human Trafficking	196,519	162,220
GCC VOCA Elder Abuse	317,916	689,790
VOCA Financial Exploitation	383,253	425,643
Interact VOCA	45,679	105,000
Interact OVW	0	101,702
DCRC VOCA	60,489	141,154
City of Durham – ERAP	4,846,420	0
City of Durham – Eviction Diversion	0	52,616
City of Raleigh - CDBG	143,668	586,106
City of Raleigh - ESG	129,000	216,000
Wake County – ESG	744,585	967,349
HUD Fair Housing Initiative EOI	125,000	95,279
HUD Fair Housing Initiative PEI	375,000	178,147
Mecklenburg County	719,623	602,544
City of Raleigh	0	15,000
United Way	0	73,000
Title III	0	280,980
	<u>\$ 34,308,921</u>	<u>\$ 34,780,218</u>

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2021 and 2020, 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.

Conditional promises to give (made by LANC) include the following at December 31, 2021: Statewide Navigator subawards of \$2,000,338, HUD Fair Housing Initiative EOI subawards of \$6,205, and HUD Fair Housing Initiative PEI subawards of \$37,229.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE L -- LONG-TERM DEBT

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

	<u>2021</u>	<u>2020</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 \$19,366 including interest at the higher of the bank's LIBOR rate or 3.25% (3.25% at December 31, 2021), with a final balloon payment due December 8, 2030. The funding agreement allowed for maximum borrowings up to \$3,400,000. At December 31, 2021, \$3,400,000 had been drawn on this note. Collateralized by real property located at 224 S. Dawson St. Raleigh, NC.	\$ 3,400,000	\$ 1,500,000
Less: Current installments	<u>(123,572)</u>	<u>0</u>
	<u>\$ 3,276,428</u>	<u>\$ 1,500,000</u>

Principal maturities approximate the following at December 31, 2021:

<u>Year Ending December 31</u>	<u>Maturing Principal</u>
2022	\$ 123,572
2023	127,648
2024	131,859
2025	136,209
2026	140,703
Thereafter	<u>2,740,009</u>
	<u>\$ 3,400,000</u>

LANC recognized interest expense of \$71,733 and \$3,792 on borrowings for the years ended December 31, 2021 and 2020, respectively.

NOTE M -- OPERATING LEASES (Including a subsequent event)

Certain of the LANC offices lease facilities and equipment under operating leases expiring at various times through 2037.

During January 2022, LANC entered into a lease agreement for its office space in Charlotte, North Carolina. The lease commenced on February 1, 2022 and expires on January 31, 2037. The lease includes an escalation clause for rental increases every twelve months. LANC is also responsible for its share of the common area operating expenses. The lease contains one consecutive five-year renewal option.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE M -- OPERATING LEASES (Including a subsequent event) -- Continued

At December 31, 2021, future minimum rentals under the long-term leases including effects of the subsequent lease are as follows:

2022	\$ 1,536,251
2023	1,087,279
2024	780,395
2025	769,625
2026	765,175
Thereafter	<u>2,742,125</u>
	<u>\$ 7,680,850</u>

Lease expense approximated \$1,509,000 and \$1,365,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020:

	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>\$ 6,336,343</u>	<u>\$ 0</u>	<u>\$ 6,336,343</u>	<u>\$ 0</u>
<u>December 31, 2019</u>				
Cash equivalents (Note A)	<u>\$ 9,267,439</u>	<u>\$ 0</u>	<u>\$ 9,267,439</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, 2021 and 2020, 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, 2021 and 2020.

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>2021</u>	<u>2020</u>
Financial assets at year-end (cash and cash equivalents and receivables)	\$ 15,291,560	\$17,114,014
Less those unavailable for general expenditures within one year, due to:		
Net assets with donor-imposed purpose restrictions	<u>(890,120)</u>	<u>(1,188,596)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,401,440</u>	<u>\$15,925,418</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 were encouraged to work remotely to provide program and support services to clients via phone, video conferences, and e-mail from March 2020 until COVID vaccinations became universally accessible in April 2021. Many employees found that they preferred working at least part-time from home offices, and LANC has adopted a more flexible policy to allow them to continue to do so where practical. For employees who have returned to work at the home office, masks are required to be worn in common areas by those employees who have not yet been fully vaccinated.

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). LANC elected to account for this forgivable loan as a conditional contribution in accordance with ASC Subtopic 958-605 at December 31, 2020. LANC spent the proceeds in accordance with federal regulations during the 24 weeks following the deposit of loan proceeds and applied to the SBA to have the loan forgiven. On August 9, 2021, LANC was notified that the application for forgiveness had been approved and that the SBA had paid off LANC's loan. With assistance received under the PPP loan program, LANC was able to keep their workforce in place during the worst of the pandemic.

Although the risk of COVID infection has decreased due to vaccination efforts and other adaptations, the impact of the worldwide pandemic is still being felt by LANC in several areas. 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 20, 2022, 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, 2021

Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
FEDERAL AWARDS:			
<u>Legal Services Corporation:</u>			
Legal Services Corporation Act	09.634032	\$ 18,904,903	*
<u>U.S. Department of Justice:</u>			
Legal Assistance for Victims:			
30th Judicial District DV Alliance (OVW)	16.524	23,201	
Interact (OVW)	16.590	41,702	
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	3,515,176	*
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	366,344	
Domestic Violence Advocacy Center (VOCA):			
Battered Immigrant Project			
Program expenditures	16.575	508,075	
Domestic Violence Advocacy Center (VOCA):			
Human Trafficking			
Program expenditures	16.575	192,650	
Domestic Violence Advocacy Center (VOCA):			
Elder Abuse			
Program expenditures	16.575	371,787	
Domestic Violence Advocacy Center (VOCA):			
Financial Exploitation			
Program expenditures	16.575	425,087	
Domestic Violence Advocacy Center (VOCA):			
DCRC			
Program expenditures	16.575	80,652	
Domestic Violence Advocacy Center (VOCA):			
Interact			
Program expenditures	16.575	61,030	

* 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, 2021

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	1,331,999	647,075
<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	810,072	
Cash matching assistance	matching	63,161	
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671	65,416	
Cash matching assistance	matching	13,050	
<u>US Department of the Treasury:</u>			
Emergency Rental Assistance Program	21.023	63,172	
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418	274,228	29,686
Education and Outreach Project	14.416	100,296	5,538
Treasury Coronavirus Relief Funds & HUD Community Development Block Grant	21.019/14.228	7,590,464 *	
US Treasury Emergency Rental Assistance	21.019	567,667	
City of Raleigh CDBG funds from HUD	14.218	442,738	
City of Raleigh ESG funds from HUD	14.231	196,101	
Wake County Emergency Services funds from HUD	14.231	222,764	
Total Expenditures of Federal Awards		<u>\$ 36,155,524</u>	
Total Federal Matching Assistance		<u>\$ 76,211</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.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

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	\$ 116,302	\$ 128,881	
North Carolina Department of Health and Human Services: Ombudsman services	1,812,620	1,819,529	822,939
North Carolina State Bar: Domestic Violence Victim Assistance Act	\$ <u>702,466</u>	\$ <u>700,971</u>	
	<u>2,631,388</u>	<u>2,649,381</u>	
Total State Awards	\$ <u>2,631,388</u>	\$ <u>2,649,381</u>	
OTHER AWARDS:			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	1,250,000	1,250,000	
Volunteer Lawyer Program	225,000	225,000	
Strategic Planning	0	41,518	
Home Defense	267,434	241,150	
Community Redevelopment	75,000	102,876	
FPLC Community Redevelopment	<u>16,875</u>	<u>22,451</u>	
Total Other Awards	\$ <u>1,834,309</u>	\$ <u>1,882,995</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 Expenditures of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

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	\$ 29,686
14.416	Education and Outreach Project	5,538
93.332	Statewide Navigator	647,075

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% or the maximum allowed by the funding source if less than 10% for the year ended December 31, 2021.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

	Basic Field	Migrant	Native American	COVID-19 Basic Field	COVID-19 Migrant	COVID-19 Native American	Technology Initiative	Disaster	Total
SUPPORT, REVENUES AND OTHER INCOME:									
LSC grants	\$ 15,456,391	\$ 513,952	\$ 236,292	\$ 0	\$ 25,662	\$ 19,620	\$ 2,606	\$ 2,352,043	\$ 18,606,566
Donated services	1,347,828								1,347,828
Attorney fees / damages	4,715								4,715
Interest income	15,968								15,968
Rental income	253,352								253,352
Proceeds from disposal of property and equipment		5,400							5,400
Other revenue and support	18,902								18,902
Total Support and Revenue	17,097,156	519,352	236,292	0	25,662	19,620	2,606	2,352,043	20,252,731
EXPENSES:									
Personnel expenses:									
Salaries:									
Attorney	6,005,395	181,921	123,607		7,769	7,890		1,060,973	7,387,555
Paralegal	1,588,377	64,103	13,105		2,301	374		296,719	1,964,979
Management	7,900								7,900
Support	702,233	17,746	5,996			97	1,930	89,986	817,988
Other salaries	403,095		1,153			6		60,222	464,476
Accrued leave	166,654	(1,714)							164,940
Fringe benefits	3,029,655	95,717	49,930		3,438	2,868	676	522,477	3,704,761
Total Personnel Expenses	11,903,309	357,773	193,791	0	13,508	11,235	2,606	2,030,377	14,512,599
Nonpersonnel expenses:									
Space	835,992	39,752	10,263		224	619		186,529	1,073,379
Equipment	65,955	1,245	919		21	42		505	68,687
Software maintenance and support	132,024	1,898	1,535		28	91		2,215	137,791
Office supplies, printing/ and postage	200,161	18,976	1,472		9,333	5,587		2,673	238,202
Telephone and internet costs	253,210	4,127	3,299		83	222		70,302	331,243
Travel	66,776	2,288	49		100	36		36,861	106,110
Training	45,140	2,072						4,573	51,785
Library expense	109,100	3,208	1,461		33	65		10,824	124,691
General insurance	70,166	2,329	860		22	53			73,430
Dues and fees	50,385	1,562	306		8	17		5,122	57,400
Audit									0
Litigation	69,988	6,264	234					418	76,904

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, 2021

	Basic Field	Migrant	Native American	COVID-19 Basic Field	COVID-19 Migrant	COVID-19 Native American	Technology Initiative	Disaster	Total
Contract services, clients:									
Paid to private attorneys									0
Pro Bono	1,347,828								1,347,828
Contract services, programs	155,437	21,636			125	362			177,560
Indirect costs allocated	1,592,704	47,163	21,411		2,163	1,260			1,664,701
Other	119,182	7,176	692		14	31		1,644	128,739
Total Nonpersonnel Expenses	<u>5,114,048</u>	<u>159,696</u>	<u>42,501</u>	<u>0</u>	<u>12,154</u>	<u>8,385</u>	<u>0</u>	<u>321,666</u>	<u>5,658,450</u>
Total Expenses	<u>17,017,357</u>	<u>517,469</u>	<u>236,292</u>	<u>0</u>	<u>25,662</u>	<u>19,620</u>	<u>2,606</u>	<u>2,352,043</u>	<u>20,171,049</u>
Support and revenue over expenses	79,799	1,883	0	0	0	0	0	0	81,682
Purchase of equipment	<u>(79,799)</u>	<u>(1,883)</u>							<u>(81,682)</u>
Change in net assets	0	0	0	0	0	0	0	0	0
Total net assets:									
Beginning 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>
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>

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, 2021

SUPPORT

Basic Field grant = \$13,198,813 x 12.5%	\$ 1,649,852
2020 shortfall added to 2021 PAI requirement pursuant to 45 CFR 1614.10(b)	<u>102,290</u>
Total Support	<u>\$ 1,752,142</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 411,852
Paralegals	86,404
Management and support staff	<u>440,008</u>
	<u>938,264</u>

Fringe benefits	<u>324,286</u>
Total Personnel Expenses	<u>1,262,550</u>

Nonpersonnel Expenses:

Payments to private attorneys	242,140
Other contract services	0
Nonpersonnel expenses	<u>285,134</u>
Total Nonpersonnel Expenses	<u>527,274</u>

Total Expenses	<u>\$ 1,789,824</u>
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Net PAI expenses over the requirement threshold	<u>\$ (37,682)</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, 2021, 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 20, 2022.

Report on 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 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 or significant deficiencies may exist that were not identified.

Report on 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.

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

Raleigh, North Carolina
April 20, 2022



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

Opinion on Each Major Federal Program

We have audited Legal Aid of North Carolina, Inc.'s compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

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, 2021.

Basis for Opinion on Each Major Federal Program

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*. Our responsibilities under those standards, the Uniform Guidance and the LSC Audit Guide and Compliance Supplement are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Legal Aid of North Carolina, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Legal Aid of North Carolina, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Legal Aid of North Carolina, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on ABC Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, the *LSC Audit Guide for Recipients and Auditors* and the *LSC Compliance Supplement for Audits of LSC Recipients* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Legal Aid of North Carolina, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, the *LSC Audit Guide for Recipients and Auditors* and the *LSC Compliance Supplement for Audits of LSC Recipients*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Legal Aid of North Carolina, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Legal Aid of North Carolina, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Legal Aid of North Carolina, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

Section I - Summary of Auditors' Results

Type of auditors' report issued on financial statements:

Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? yes no
- ◆ Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

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

Unmodified

Internal control over major federal award programs:

- ◆ Material weakness(es) identified? yes no
- ◆ Significant deficiency(ies) identified? 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
93.044

Name of Federal Program or Cluster
Legal Services Corporation Act
Title III B Grants for Supportive Services and Senior Centers

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.

Year Ended December 31, 2021

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, 2021

There are no matters to report.