

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2022 and 2021**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2022 and 2021

Audited Financial Statements

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Independent Auditor's 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, 2022 and 2021, 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, 2022 and 2021, 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 Auditor's 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 Statements

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.

Auditor's 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 auditor's 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 Auditor's 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, 2022, 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 25, 2023 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.

Romer, Wiggins + Company, L.L.P.

Raleigh, North Carolina
April 25, 2023

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,238,958	\$ 6,520,691
Client escrow funds	100,444	43,791
Receivables:		
Grants and contracts	8,491,650	8,642,284
Sales tax	42,284	46,569
Other	9,568	128,585
Prepaid expenses	210,883	61,968
Deposits	65,333	63,875
Investment in joint venture	2,224,705	2,250,000
TOTAL CURRENT ASSETS	16,383,825	17,757,763
PROPERTY AND EQUIPMENT		
Land and buildings	3,148,643	2,085,415
Building improvements	615,261	615,261
Leasehold improvements	194,167	194,167
Equipment and furniture	697,942	670,729
Vehicles	191,912	191,912
Website	195,405	195,405
Software	411,600	411,600
Construction in progress	0	913,024
	5,454,930	5,277,513
Accumulated depreciation	(3,057,330)	(2,741,298)
	2,397,600	2,536,215
Operating lease right-of-use assets	6,384,031	0
TOTAL ASSETS	\$ 25,165,456	\$ 20,293,978
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 384,419	\$ 286,130
Client deposits	100,444	43,791
Accrued vacation	1,323,828	1,198,137
Other accrued liabilities	1,544,384	1,406,271
Subcontracts/subgrants payable	552,289	555,034
Deferred support/revenue	6,705,932	7,692,491
Note payable, current portion	89,121	123,572
Operating lease liabilities, current portion	1,210,426	0
TOTAL CURRENT LIABILITIES	11,910,843	11,305,426
Note payable, less current portion	3,219,111	3,276,428
Operating lease liabilities, less current portion	5,361,903	0
TOTAL LIABILITIES	20,491,857	14,581,854
NET ASSETS		
Without donor restrictions:		
Property and equipment	601,926	649,497
Other net assets - without donor restrictions	3,189,023	4,172,507
	3,790,949	4,822,004
With donor restrictions:		
Property and equipment	882,650	973,694
Other net assets - with donor restrictions	0	(83,574)
	882,650	890,120
TOTAL NET ASSETS	4,673,599	5,712,124
TOTAL LIABILITIES AND NET ASSETS	\$ 25,165,456	\$ 20,293,978

See independent auditor's report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 17,420,144	\$ 17,420,144
Non-LSC grants and contracts	405,989	31,545,673	31,951,662
Matching assistance	417	67,550	67,967
Donations and contributions:			
Other	1,668,120	3,200	1,671,320
Donated services	1,462,252		1,462,252
Attorney fees / damages		3,000	3,000
Interest income		45,643	45,643
Rental income		227,476	227,476
Proceeds from disposal of property and equipment			0
Other revenue and support	(25,293)	6,663	(18,630)
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>49,326,819</u>	<u>(49,326,819)</u>	<u>0</u>
TOTAL REVENUES AND OTHER SUPPORT	52,838,304	(7,470)	52,830,834
EXPENSES			
Program services	49,207,202		49,207,202
Support services:			
Management and general	4,420,744		4,420,744
Fundraising	<u>241,413</u>		<u>241,413</u>
	<u>4,662,157</u>	<u>0</u>	<u>4,662,157</u>
TOTAL EXPENSES	<u>53,869,359</u>	<u>0</u>	<u>53,869,359</u>
CHANGE IN NET ASSETS	(1,031,055)	(7,470)	(1,038,525)
Net assets, beginning of year	<u>4,822,004</u>	<u>890,120</u>	<u>5,712,124</u>
NET ASSETS, END OF YEAR	<u>\$ 3,790,949</u>	<u>\$ 882,650</u>	<u>\$ 4,673,599</u>

See independent auditor's report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>45,104,054</u>	<u>(45,104,054)</u>	<u>0</u>
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	<u>288,580</u>		<u>288,580</u>
	<u>4,289,242</u>	<u>0</u>	<u>4,289,242</u>
TOTAL EXPENSES	<u>47,296,152</u>	<u>0</u>	<u>47,296,152</u>
CHANGE IN NET ASSETS	1,148,872	(298,476)	850,396
Net assets, beginning of year	<u>3,673,132</u>	<u>1,188,596</u>	<u>4,861,728</u>
NET ASSETS, END OF YEAR	<u>\$ 4,822,004</u>	<u>\$ 890,120</u>	<u>\$ 5,712,124</u>

See independent auditor's report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
PERSONNEL:			
Salaries			
Attorneys	\$ 14,964,031	\$	\$ 14,964,031
Paralegals	3,434,791		3,434,791
Management		598,809	598,809
Support	1,796,449	92,710	1,889,159
Other	1,471,994	1,809,586	3,281,580
Accrued leave	127,847	(2,156)	125,691
Fringe benefits	<u>7,085,527</u>	<u>823,892</u>	<u>7,909,419</u>
Total personnel	28,880,639	3,322,841	32,203,480
OTHER EXPENSES:			
Space	2,345,102	192,600	2,537,702
Equipment	118,677	6,993	125,670
Software maintenance and support	350,424	73,305	423,729
Office supplies, equipment, printing and postage	554,769	79,649	634,418
Telephone and internet costs	581,500	48,108	629,608
Travel	248,347	18,417	266,764
Training	145,360	14,258	159,618
Library expense	248,749	14,065	262,814
General insurance	166,763	21,947	188,710
Dues and fees	150,834	33,375	184,209
Audit		61,457	61,457
Litigation	111,701	13	111,714
Advertising	918,977	3,243	922,220
Contract services, clients:			
Paid to private attorneys	296,303		296,303
Pro bono	1,462,252		1,462,252
Contract services, program	609,384	300,451	909,835
Subgrants/subcontracts awarded	3,982,014		3,982,014
Rental/utilities assistance payments	7,439,150		7,439,150
Other	280,650	316,305	596,955
Interest expense	148,647		148,647
Depreciation	164,537	155,130	319,667
Loss on disposal of equipment	2,423		2,423
Total other expenses	<u>20,326,563</u>	<u>1,339,316</u>	<u>21,665,879</u>
TOTAL EXPENSES	<u>\$ 49,207,202</u>	<u>\$ 4,662,157</u>	<u>\$ 53,869,359</u>

See independent auditor's 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
Advertising	24,316	16,119	40,435
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	182,246	129,631	311,877
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 auditor's report and notes to financial statements.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,038,525)	\$ 850,396
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	319,667	331,062
Amortization of right-of-use assets	188,298	0
Net loss on disposal of property and equipment	2,423	26,798
Noncash change in joint venture	25,295	0
Decrease (increase) in operating assets:		
Receivables	273,936	(1,609,362)
Prepaid expenses	(148,915)	(5,741)
Deposits	(1,458)	2,154
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	362,093	26,459
Grants payable	(2,745)	322,110
Deferred support	(986,559)	(3,368,100)
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,006,490)</u>	<u>(3,424,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	0	5,400
Purchases of property and equipment	(183,475)	(1,141,444)
Investment in joint venture	0	(750,000)
NET CASH USED IN INVESTING ACTIVITIES	<u>(183,475)</u>	<u>(1,886,044)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt	(91,768)	0
Proceeds from long-term debt	0	1,900,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(91,768)</u>	<u>1,900,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,281,733)	(3,410,268)
Cash and cash equivalents, beginning of year	<u>6,520,691</u>	<u>9,930,959</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,238,958</u>	<u>\$ 6,520,691</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 140,624	\$ 66,009
Noncash investing and financing transactions:		
Operating lease right-of-use assets	7,616,522	0
Operating lease obligations	(7,616,522)	0

See independent auditor's report and notes to financial statements.

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2022 and 2021

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 FASB ASC 842: Effective January 1, 2022, LANC adopted FASB ASC 842, *Leases*. LANC determines if an arrangement contains a lease at inception based on whether LANC has the right to control the asset during the contract period and other facts and circumstances. LANC elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use assets, and operating lease liabilities of \$7,616,522 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on LANC's statement of activities, or cash flows. Refer also to *Note N--Leases-Lessees* (after the adoption of FASB ASC 842).

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 P--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, 2022 and 2021, cash equivalents include \$4,106,952 and \$6,336,343, 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.

Notes to Financial Statements--Continued

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.

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 \$6,058 and a net book value of \$2,423 were written-off in 2022 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, 2022 and 2021, due to the short-term maturity of these financial instruments. Refer also to *Note O--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 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>2022</u>	<u>2021</u>
Basic Grant	\$ 15,146,837	\$ 15,456,391
Migrant Workers	413,483	513,952
Native Americans	168,004	236,292
COVID-19 Migrant	0	25,662
COVID-19 Native American	0	19,620
Disaster	1,691,820	2,352,043
Technology	<u>0</u>	<u>2,606</u>
	<u>\$ 17,420,144</u>	<u>\$ 18,606,566</u>

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

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 2022 and 2021, 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 2022 and 2021, 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 November 2021, LANC received funding from the City of Durham 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 the City of Durham to administer emergency rental assistance under the program named ERAP2 to low-income renters residing in the City of Durham. The funding was primarily pass-through emergency rental assistance for households in arrears due to the impact of the pandemic. LANC received approximately \$1,600,000 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 ERAP2 project was terminated when all funds were depleted. LANC administered payments of over \$5,700,000 to approximately 930 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 \$1,621,938 and \$1,591,988 was recognized as support for the years ended December 31, 2022 and 2021, respectively, as a result of these efforts. The 2022 and 2021, amount includes \$933,849 and \$792,067 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, 2022 and 2021. Filings for tax years 2019 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 \$832,895 for 2022 and \$776,705 for 2021. No matching contributions were approved for 2022 and 2021.

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, 2022 and 2021, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$4,676,894 and \$4,633,527, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2022</u>	<u>2021</u>
Claims paid, net beginning of year IBNR accrual	\$ 3,840,668	\$ 3,827,914
Less: Reimbursements over stop-loss	(129,182)	(222,443)
Employee withholdings for premiums	(450,884)	(453,565)
Stop-loss premiums, network and administrative fees	936,495	890,084
IBNR accrual, December 31	<u>494,674</u>	<u>438,357</u>
	<u>\$ 4,691,771</u>	<u>\$ 4,480,347</u>

NOTE E -- LSC FUND BALANCE AND PAI RECAPTURE

LSC policy specifies that LANC may not carry forward a combined LSC fund balance at year-end in excess of 10% of total LSC annual funding, plus interest earned thereon, plus rent and reimbursement of attorney fees, without obtaining a waiver from LSC. LANC did not exceed LSC’s 10% limitation at December 31, 2022 or December 31, 2021.

LSC policy requires that LANC spend an amount equal to 12.5% of their LSC Basic Field Grant on Private Attorney Involvement (“PAI”) activities. PAI expenses incurred by LANC exceeded the 12.5% minimum required by the LSC grant for the years ended December 31, 2022 and 2021.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 33% and 39% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2022 and 2021, respectively. Refer also to *Note L--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

	2022			2021		
	<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	\$ 1,053,558	\$ 711,026	\$ 1,764,584	\$ 1,022,904	\$ 741,680
Building improvements	408,098	322,116	85,982	408,098	305,132	102,966
Leasehold improvements	62,534	37,333	25,201	62,534	33,010	29,524
Equipment and furniture	333,731	291,151	42,580	319,170	261,952	57,218
Vehicles	1,883	376	1,507	1,883	376	1,507
Website	0	0	0	0	0	0
Software	73,335	56,981	16,354	73,335	32,536	40,799
Construction in progress	0	0	0	0	0	0
	<u>\$ 2,644,165</u>	<u>\$ 1,761,515</u>	<u>\$ 882,650</u>	<u>\$ 2,629,604</u>	<u>\$ 1,655,910</u>	<u>\$ 973,694</u>

Non-LSC Property

	2022			2021		
	<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	\$ 1,384,059	\$ 110,937	\$ 1,273,122	\$ 320,831	\$ 103,541	\$ 217,290
Building improvements	207,163	159,788	47,375	207,163	149,250	57,913
Leasehold improvements	131,633	130,282	1,351	131,633	130,113	1,520
Equipment and furniture	364,211	318,820	45,391	351,559	288,820	62,739
Vehicles	190,029	173,605	16,424	190,029	142,995	47,034
Website	195,405	176,447	18,958	195,405	157,488	37,917
Software	338,265	225,936	112,329	338,265	113,181	225,084
Construction in progress	0	0	0	913,024	0	913,024
	<u>\$ 2,810,765</u>	<u>\$ 1,295,815</u>	<u>\$ 1,514,950</u>	<u>\$ 2,647,909</u>	<u>\$ 1,085,388</u>	<u>\$ 1,562,521</u>
<u>Total Property</u>	<u>\$ 5,454,930</u>	<u>\$ 3,057,330</u>	<u>\$ 2,397,600</u>	<u>\$ 5,277,513</u>	<u>\$ 2,741,298</u>	<u>\$ 2,536,215</u>

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

	December 31,	
	<u>2022</u>	<u>2021</u>
Property and equipment, net of accumulated depreciation	\$ 2,397,600	\$ 2,536,215
Less related outstanding debt	<u>(913,024)</u>	<u>(913,024)</u>
	<u>\$ 1,484,576</u>	<u>\$ 1,623,191</u>
Without donor restrictions	\$ 601,926	\$ 649,497
With donor restrictions	<u>882,650</u>	<u>973,694</u>
	<u>\$ 1,484,576</u>	<u>\$ 1,623,191</u>

Depreciation and amortization expense totaled \$319,667 and \$331,062 for the years ended December 31, 2022 and 2021, 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. The building has been completed and LANC started occupying the space in mid-January 2022 as a tenant. Refer also to *Note N--Leases-Lessees* (after the adoption of FASB ASC 842).

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

	<u>2022</u>	<u>2021</u>
<u>Financial Position:</u>		
Total assets	\$ 4,604,621	\$ 4,501,000
Total liabilities	21,141	1,000
Members' equity	4,583,479	4,500,000
<u>Operating Results:</u>		
Net loss	\$ (50,590)	\$ 0

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

Capital contribution	\$ 2,250,000	\$ 2,250,000
Prorata share of joint venture's net loss	<u>(25,295)</u>	<u>0</u>
	<u>\$ 2,224,705</u>	<u>\$ 2,250,000</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,	
	<u>2022</u>	<u>2021</u>
LSC (including interest in fixed assets)	\$ 17,702,926	\$ 18,878,371
IOLTA	1,919,700	1,882,995
State	3,589,816	10,193,224
Title III	599,378	873,234
Family Violence	6,349,022	6,365,141
United Way	508,544	623,246
Other	18,566,389	6,247,920
Property:		
Depreciation and gain on disposal	322,090	363,260
LSC interest in fixed assets	<u>(231,046)</u>	<u>(323,337)</u>
	<u>\$ 49,326,819</u>	<u>\$ 45,104,054</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE J -- DEFERRED REVENUE/SUPPORT

Deferred revenue/support consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
LSC – Basic General	\$ 0	\$ 1,198,270
LSC – Basic Migrant	488,896	170,660
LSC – Basic Native American	153,122	34,991
LSC – Disaster	3,275,996	617,816
NCDHHS – Ombudsman Services	280,180	2,256,183
City of Durham – ERAP2	0	1,615,473
County, City, Towns and Other	<u>2,507,738</u>	<u>1,799,098</u>
	<u>\$ 6,705,932</u>	<u>\$ 7,692,491</u>

NOTE K -- NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31,	
	<u>2022</u>	<u>2021</u>
State	\$ 0	\$ (86,683)
Title III	0	625
Family Violence	0	14,822
Other	0	(12,338)
Property	<u>882,650</u>	<u>973,694</u>
	<u>\$ 882,650</u>	<u>\$ 890,120</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. During 2022, NCORR reimbursed LANC for all eviction diversion work expenses incurred through the end of the project.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE L -- CONDITIONAL PROMISES TO GIVE

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

<u>Grant Awards</u>	<u>2022</u>	<u>2021</u>
LSC	\$ 17,212,603	\$ 14,966,393
NC IOLTA	2,534,764	1,919,700
Statewide Navigator	3,808,084	4,437,005
NC Department of Public Safety (VOAD)	0	166,196
NCORR Eviction Diversion	0	1,322,384
Family Violence Prevention (FVPE)	178,832	60,868
GCC VOCA (Statewide)	3,661,131	2,950,725
GCC VOCA BIP	0	398,498
GCC VOCA Human Trafficking	76,510	196,519
GCC VOCA Elder Abuse	0	317,916
VOCA Financial Exploitation	0	383,253
VOCA UVVP	901,306	0
VOCA Short Term	595,146	0
Interact VOCA	0	45,679
DCRC VOCA	20,000	60,489
City of Durham – ERAP	0	4,846,420
City of Durham – Eviction Diversion	1,322,384	0
City of Raleigh - CDBG	0	143,668
City of Raleigh - ESG	0	129,000
Wake County – ESG	0	744,585
HUD Fair Housing Initiative EOI	0	125,000
HUD Fair Housing Initiative PEI	425,000	375,000
HUD Fair Housing Initiative PEI-ARP	233,334	0
Mecklenburg County	2,427,369	719,623
Z. Smith Reynolds – Home Defense	355,000	0
DHHS Ombudsman Services	2,071,466	0
Forsyth County ARPA	240,000	0
Forsyth County EJI - ARPA	380,235	0
	<u>\$ 36,443,164</u>	<u>\$ 34,308,921</u>

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2022 and 2021, 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, 2022: Statewide Navigator subawards of \$2,201,615, HUD Fair Housing Initiative PEI subawards of \$5,000, and HUD Fair Housing Initiative PEI-ARP subawards of \$4,995.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE M -- LONG-TERM DEBT

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

	<u>2022</u>	<u>2021</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% (6.72% at December 31, 2022), with a final balloon payment due December 8, 2030. The funding agreement allowed for maximum borrowings up to \$3,400,000. Collateralized by real property located at 224 S. Dawson St. Raleigh, NC.	\$ 3,308,232	\$ 3,400,000
Less: Current installments	<u>(89,121)</u>	<u>(123,572)</u>
	<u>\$ 3,219,111</u>	<u>\$ 3,276,428</u>

Principal maturities approximate the following at December 31, 2022:

<u>Year Ending December 31</u>	<u>Maturing Principal</u>
2023	\$ 89,121
2024	95,299
2025	101,905
2026	108,970
2027	116,524
Thereafter	<u>2,796,413</u>
	<u>\$ 3,308,232</u>

LANC recognized interest expense of \$148,647 and \$71,733 on borrowings for the years ended December 31, 2022 and 2021, respectively.

NOTE N -- LEASES-LESSEES (After the adoption of FASB ASC 842)

LANC has operating leases of buildings for offices and for certain equipment. The leases have remaining lease terms of 1 year to 15 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

The following summarizes the line items in the statement of financial position which include amounts for operating leases as of December 31, 2022:

Operating lease right-of-use assets	\$ <u>6,384,031</u>
Operating lease liabilities, current portion	\$ 1,210,426
Operating lease liabilities, less current portion	<u>5,361,903</u>
Total operating lease liabilities	<u>\$ 6,572,329</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE N -- LEASES-LESSEES (After the adoption of FASB ASC 842)--Continued

Weighted average lease term and discount rate as of December 31, 2022 were as follows:

Weighted average remaining lease term	7.2 years
Weighted average discount rate	4.47%

The maturities of operating lease liabilities as of December 31, 2022, were as follows:

2023	\$ 1,612,211
2024	1,339,555
2025	1,163,403
2026	1,124,647
2027	905,936
Thereafter	<u>2,212,388</u>
Total lease payments	8,358,140
Less: Interest	<u>1,785,811</u>
Present value of lease liability	\$ <u>6,572,329</u>

The following summarizes the line items in the statement of functional expenses which include the components of lease expense for the year ended December 31, 2022:

Space	\$ <u>2,537,702</u>
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NOTE O -- 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, 2022 and 2021:

	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, 2022</u>				
Cash equivalents (Note A)	\$ <u>4,106,952</u>	\$ <u>0</u>	\$ <u>4,106,952</u>	\$ <u>0</u>
<u>December 31, 2021</u>				
Cash equivalents (Note A)	\$ <u>6,336,343</u>	\$ <u>0</u>	\$ <u>6,336,343</u>	\$ <u>0</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE O -- FAIR VALUE MEASUREMENTS--Continued

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, 2022 and 2021, 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, 2022 and 2021.

NOTE P -- 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>2022</u>	<u>2021</u>
Financial assets at year-end (cash and cash equivalents and receivables)	\$ 13,740,176	\$ 15,291,560
Less those unavailable for general expenditures within one year, due to:		
Net assets with donor-imposed purpose restrictions	<u>(882,650)</u>	<u>(890,120)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,857,526</u>	<u>\$ 14,401,440</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 Q -- COVID RESPONSE

COVID-19: On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic. LANC closed its physical offices on March 16, 2020 due to the pandemic. LANC maintained full operations and employees were encouraged to work remotely to provide program and support services to clients via phone, video conferences, and e-mail 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 from the home office, masks are required to be worn in common areas by those employees who have not yet been fully vaccinated.

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 R -- EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2023, 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, 2022

Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
<u>FEDERAL AWARDS:</u>			
<u>Legal Services Corporation:</u>			
Legal Services Corporation Act	09.634032	\$ 17,729,458	*
<u>U.S. Department of Justice:</u>			
Legal Assistance for Victims:			
Interact (OVW)	16.590	18,000	
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	3,837,487	
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	7,801	
Domestic Violence Advocacy Center (VOCA): Battered Immigrant Project			
Program expenditures	16.575	402,379	
Domestic Violence Advocacy Center (VOCA): Human Trafficking			
Program expenditures	16.575	117,230	
Domestic Violence Advocacy Center (VOCA): Elder Abuse			
Program expenditures	16.575	317,917	
Domestic Violence Advocacy Center (VOCA): Financial Exploitation			
Program expenditures	16.575	383,253	
Domestic Violence Advocacy Center (VOCA): Underserved Vulnerable Victims Project			
Program expenditures	16.575	195,843	
Domestic Violence Advocacy Center (VOCA): DCRC			
Program expenditures	16.575	63,500	
Domestic Violence Advocacy Center (VOCA): Interact			
Program expenditures	16.575	44,669	

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

See independent auditor's 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, 2022

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	5,334,620 *	2,457,559
<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	548,218	
Cash matching assistance	matching	51,160	
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671	77,118	
Cash matching assistance	matching	16,390	
<u>US Department of the Treasury:</u>			
City of Durham			
Emergency Rental Assistance Program 2	21.023	6,455,306 *	5,729,534
Forsyth County ARPA			
Coronavirus State and Local Fiscal Recovery Funds	21.027	67,462	
City of Winston Salem ARPA - ED Right to Counsel			
Coronavirus State and Local Fiscal Recovery Funds	21.027	28,432	
Emergency Rental Assistance	21.019	1,464,669	68,140
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418	341,848	29,456
Education and Outreach Project	14.416	113,836	6,205
American Rescue Plan	14.418	146,911	
City of Raleigh CDBG funds	14.218	114,146	114,146
City of Raleigh ESG funds	14.231	<u>95,076</u>	88,697
Total Expenditures of Federal Awards		<u>\$ 37,905,179</u>	
Total Federal Matching Assistance		<u>\$ 67,550</u>	

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

See independent auditor's 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, 2022

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	\$ 166,196	\$ 161,128	
North Carolina Department of Health and Human Services:			
Ombudsman services	1,848,409	2,050,703	1,074,045
North Carolina State Bar:			
Domestic Violence Victim Assistance Act	\$ 792,190	\$ 809,281	
	<u>2,806,795</u>	<u>3,021,112</u>	
Total State Awards	\$ <u>2,806,795</u>	\$ <u>3,021,112</u>	
OTHER AWARDS:			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	\$ 1,440,000	\$ 1,440,000	
Volunteer Lawyer Program	250,000	250,000	
Home Defense	<u>229,700</u>	<u>229,700</u>	
Total Other Awards	\$ <u>1,919,700</u>	\$ <u>1,919,700</u>	

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

See independent auditor's 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, 2022

NOTE A--BASIS OF PRESENTATION

The accompanying schedule expenditures of federal, state and other awards (the Schedule) includes the federal, state and certain other grant activity of Legal Aid of North Carolina, Inc. for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and U.S. Department of the Treasury's guidance and FAQs published in the *Federal Register*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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 C -- 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	\$ 29,456
14.416	Education and Outreach Project	6,205
93.332	Statewide Navigator	2,457,559
	Ombudsman Services	1,074,045

NOTE D -- 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, 2022.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

	Basic Field	Migrant	Native American	Disaster	Total
SUPPORT, REVENUES AND OTHER INCOME:					
LSC grants	\$ 15,146,837	\$ 413,483	\$ 168,004	\$ 1,691,820	\$ 17,420,144
Donated services	1,462,252				1,462,252
Attorney fees / damages	3,000				3,000
Interest income	45,643				45,643
Rental income	254,008				254,008
Proceeds from disposal of property and equipment					0
Other revenue and support	6,663				6,663
Total Support and Revenue	<u>16,918,403</u>	<u>413,483</u>	<u>168,004</u>	<u>1,691,820</u>	<u>19,191,710</u>
EXPENSES:					
Personnel expenses:					
Salaries:					
Attorney	6,228,028	154,529	93,022	651,767	7,127,346
Paralegal	1,535,367	33,847	7,221	194,086	1,770,521
Management	61,908				61,908
Support	740,895	13,073	1,939	50,769	806,676
Other salaries	576,155	1,835	419	75,241	653,650
Accrued leave		2,176			2,176
Fringe benefits	2,911,089	65,497	35,668	334,662	3,346,916
Total Personnel Expenses	<u>12,053,442</u>	<u>270,957</u>	<u>138,269</u>	<u>1,306,525</u>	<u>13,769,193</u>
Nonpersonnel expenses:					
Space	928,655	36,742	7,422	113,159	1,085,978
Equipment	50,270	1,504	390	3,353	55,517
Software maintenance and support	129,081	2,251	1,050	19,169	151,551
Office supplies, printing/ and postage	107,936	31,079	857	9,014	148,886
Telephone and internet costs	249,915	5,176	2,127	54,195	311,413
Travel	131,411	905	344	44,072	176,732
Training	80,448	7,614		18,892	106,954
Library expense	94,515	3,148	866	11,960	110,489
General insurance	77,481	1,197	628	3,622	82,928
Dues and fees	41,663	1,431	348	6,891	50,333
Audit					0
Litigation	68,184	2,023		453	70,660
Advertising	5,468	47	62	253	5,830

See independent auditor's report as pertains to supplementary information.

Statement of Activities for LSC Grants--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

	Basic Field	Migrant	Native American	Disaster	Total
Contract services, clients:					
Paid to private attorneys					0
Pro Bono	1,462,252				1,462,252
Contract services, programs	166,755	612			167,367
Indirect costs allocated	1,098,668	36,043	15,249	97,637	1,247,597
Other	155,164	12,754	392	2,625	170,935
Total Nonpersonnel Expenses	<u>4,847,866</u>	<u>142,526</u>	<u>29,735</u>	<u>385,295</u>	<u>5,405,422</u>
Total Expenses	<u>16,901,308</u>	<u>413,483</u>	<u>168,004</u>	<u>1,691,820</u>	<u>19,174,615</u>
Support and revenue over expenses	17,095	0	0	0	17,095
Purchase of equipment	<u>(17,095)</u>				<u>(17,095)</u>
Change in net assets	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>
End of period	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See independent auditor's report as pertains to supplementary information.

Statement of Private Attorney Involvement Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

SUPPORT

Basic Field grant = \$13,948,567 x 12.5%	\$ 1,743,571
Total Support	<u>\$ 1,743,571</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 435,103
Paralegals	73,635
Management and support staff	<u>455,488</u>
	<u>964,226</u>

Fringe benefits	<u>335,861</u>
Total Personnel Expenses	<u>1,300,087</u>

Nonpersonnel Expenses:

Payments to private attorneys	296,354
Other contract services	0
Nonpersonnel expenses	<u>278,614</u>
Total Nonpersonnel Expenses	<u>574,968</u>

Total Expenses	<u>\$ 1,875,055</u>
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Net PAI expenses over the requirement threshold	<u>\$ (131,484)</u>
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Refer also to *Note E--LSC FUND BALANCE AND PAI RECAPTURE*

See independent auditor's report as pertains to supplementary information.

COMPLIANCE REPORTS



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

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, 2022, 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 25, 2023.

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 25, 2023



Independent Auditor's 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, 2022. Legal Aid of North Carolina Inc.'s major federal programs are identified in the summary of auditor's 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, 2022.

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 Auditor's 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.

Auditor's 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 Legal Aid of North Carolina, Inc.'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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Legal Aid of North Carolina, Inc.'s response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Legal Aid of North Carolina, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

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

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.

Raleigh, North Carolina
April 25, 2023

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Type of auditor's report issued on financial statements: *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 auditor's 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 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 federal programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
09.634032	Legal Services Corporation Act
16.575	Crime Victim Assistance
21.023	Emergency Rental Assistance Program 2

Dollar threshold used to distinguish between type A and type B programs: \$1,137,155

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, 2022

Section II - Financial Statement Findings

There were no such findings to report.

Section III - Federal Award Findings and Questioned Costs

Finding 2022-001: Case File Documentation/CFDA 09.634032

Criteria: (Regulation 1611.9) Case files must contain an executed retainer agreement when extended service representation commences or as soon thereafter as is practicable. No written retainer agreement is required when the recipient is merely providing advice and counsel or brief service, or when legal services are being provided by a private attorney.

Condition: Documentation of an executed retainer agreement could not be located for eight selected case files for which extended service had been performed.

Cause: Procedures are in place regarding documentation requirements but were not properly followed.

Effect: In the cases where retainers were required but missing, the clients to whom we provided extended service representation did not have clear expectations regarding the extent of our services. While these cases were reportable, they were non-compliant with LSC regulation 1611.9, which requires a written retainer agreement be executed when a recipient provides extended service to a client.

Questioned Costs: None to report.

Context: 8 of 151 LSC eligible case files (or 5.3%) selected at random from 9 service locations did not adequately document a retainer determination. Events of noncompliance were noted in 4 of the 9 service locations sampled. Our sample was a statistically valid sample.

Recommendation: We recommend that management re-emphasize the importance of maintaining adequate documentation of retainer determination for all LSC eligible cases. Periodic reviews of case files should be performed to ensure compliance.

Views of responsible officials and planned corrective actions: The largest number of errors were discovered in one office, which office has a relatively new managing attorney. Legal Aid of North Carolina, Inc.'s Compliance Officer will provide compliance training targeted to this manager and her staff, emphasize compliance in new hire onboarding training, and train managers and supervisors promoted to new leadership roles. Additionally, all advocacy staff (attorneys and paralegals) will have mandatory annual refresher training on when and how to execute retainers. The training will also include a review of LSC Regulation 1611.9, Retainer Agreements.

To strengthen the compliance process and assure requirements are met, Legal Aid of North Carolina, Inc. will perform semi-annual internal self-inspections to include retainer monitoring. We also plan to perform retainer monitoring of field offices that this audit and future self-inspections identify as missing required case documentation, including retainer agreements. Finally, our case management system will be evaluated for opportunities to more systematic alert case closing approvers or report on potential missing required documents.

Summary Schedule of Prior Audit Findings

Legal Aid of North Carolina, Inc.

Year Ended December 31, 2022

There are no matters to report.