

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2024 and 2023**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2024 and 2023

Audited Financial Statements

Independent Auditor’s Report	1
Statements of Financial Position	3
Statement of Activities (2024).....	4
Statement of Activities (2023).....	5
Statement of Functional Expenses (2024).....	6
Statement of Functional Expenses (2023).....	7
Statements of Cash Flows	8
Notes to Financial Statements	9

Supplementary Information

Schedule of Expenditures of Federal, State, and Other Awards.....	22
Notes to Schedule of Expenditures of Federal, State, and Other Awards	24
Statement of Activities for LSC Grants.....	25
Statement of Private Attorney Involvement Expenses	27

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 <i>Government Auditing Standards</i>	29
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	31
Schedule of Findings and Questioned Costs	34
Summary Schedule of Prior Audit Findings.....	36



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, 2024 and 2023, 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, 2024 and 2023, 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, 2024, 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, 2025 on our consideration of LANC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LANC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LANC's internal control over financial reporting and compliance.

Romer, Wiggins & Company, LLP.

Raleigh, North Carolina
April 25, 2025

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents:		
Board-designated	\$ 426,758	\$ 1,500,000
Other	7,934,274	9,397,682
Investments:		
Board-designated certificates of deposit	1,703,429	0
Client escrow funds	70,646	46,773
Receivables:		
Grants and contracts	6,694,993	8,015,741
Sales tax	47,754	38,027
Other	0	36,527
Prepaid expenses	85,922	222,589
Deposits	129,668	281,385
Investment in joint venture	2,114,825	2,173,563
TOTAL CURRENT ASSETS	<u>19,208,269</u>	<u>21,712,287</u>
PROPERTY AND EQUIPMENT		
Land and buildings	3,397,193	3,006,894
Building improvements	647,991	600,759
Leasehold improvements	772,785	201,367
Equipment and furniture	774,243	767,255
Vehicles	430,462	191,912
Website	195,405	195,405
Software	453,900	425,400
Construction in progress	419,568	169,361
	<u>7,091,547</u>	<u>5,558,353</u>
Accumulated depreciation	<u>(3,429,583)</u>	<u>(3,183,198)</u>
	3,661,964	2,375,155
Operating lease right-of-use assets	<u>5,850,022</u>	<u>5,853,804</u>
TOTAL ASSETS	<u>\$ 28,720,255</u>	<u>\$ 29,941,246</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,577,965	\$ 232,074
Client deposits	70,646	46,773
Accrued vacation	1,398,524	1,294,099
Other accrued liabilities	1,831,493	1,786,450
Subcontracts/subgrants payable	14,100	432,492
Deferred support/revenue	5,316,912	6,584,281
Note payable, current portion	99,213	84,391
Operating lease liabilities, current portion	1,175,973	1,086,078
TOTAL CURRENT LIABILITIES	<u>11,484,826</u>	<u>11,546,638</u>
Note payable, less current portion	3,060,809	3,163,016
Operating lease liabilities, less current portion	4,974,409	5,003,103
TOTAL LIABILITIES	<u>19,520,044</u>	<u>19,712,757</u>
NET ASSETS		
Without donor restrictions:		
Property and equipment	2,440,843	1,548,510
Board designated reserve	2,130,187	1,500,000
Other net assets - without donor restrictions	3,408,060	6,353,334
	<u>7,979,090</u>	<u>9,401,844</u>
With donor restrictions:		
Property and equipment	1,221,121	826,645
	<u>1,221,121</u>	<u>826,645</u>
TOTAL NET ASSETS	<u>9,200,211</u>	<u>10,228,489</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,720,255</u>	<u>\$ 29,941,246</u>

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

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 18,596,632	\$ 18,596,632
Non-LSC grants and contracts	548,197	26,716,754	27,264,951
Matching assistance		53,002	53,002
Donations and contributions:			
Other	2,243,192		2,243,192
Donated services	1,768,389		1,768,389
Attorney fees / damages		52,951	52,951
Interest income		517,228	517,228
Rental income		226,387	226,387
Proceeds from disposal of property and equipment			0
Other revenue and support	(58,739)		(58,739)
Net assets released from restrictions:			
Satisfaction of purpose restrictions	45,768,478	(45,768,478)	0
TOTAL REVENUES AND OTHER SUPPORT	<u>50,269,517</u>	<u>394,476</u>	<u>50,663,993</u>
EXPENSES			
Program services	45,558,892		45,558,892
Support services:			
Management and general	5,855,552		5,855,552
Fundraising	277,827		277,827
	<u>6,133,379</u>	<u>0</u>	<u>6,133,379</u>
TOTAL EXPENSES	<u>51,692,271</u>	<u>0</u>	<u>51,692,271</u>
CHANGE IN NET ASSETS	(1,422,754)	394,476	(1,028,278)
Net assets, beginning of year	<u>9,401,844</u>	<u>826,645</u>	<u>10,228,489</u>
NET ASSETS, END OF YEAR	<u>\$ 7,979,090</u>	<u>\$ 1,221,121</u>	<u>\$ 9,200,211</u>

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

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
LSC grants	\$ 640,592	\$ 18,464,336	\$ 18,464,336
Non-LSC grants and contracts		22,343,169	22,983,761
Matching assistance		62,970	62,970
Donations and contributions:			
Other	8,193,356	1,783	8,195,139
Donated services	1,354,815		1,354,815
Attorney fees / damages		135,386	135,386
Interest income		248,270	248,270
Rental income		240,430	240,430
Proceeds from disposal of property and equipment		1,434,447	1,434,447
Other revenue and support	(51,142)	500	(50,642)
Net assets released from restrictions:			
Satisfaction of purpose restrictions	42,987,296	(42,987,296)	0
TOTAL REVENUES AND OTHER SUPPORT	<u>53,124,917</u>	<u>(56,005)</u>	<u>53,068,912</u>
EXPENSES			
Program services	42,330,161		42,330,161
Support services:			
Management and general	4,814,470		4,814,470
Fundraising	369,391		369,391
	<u>5,183,861</u>	<u>0</u>	<u>5,183,861</u>
TOTAL EXPENSES	<u>47,514,022</u>	<u>0</u>	<u>47,514,022</u>
CHANGE IN NET ASSETS	5,610,895	(56,005)	5,554,890
Net assets, beginning of year	<u>3,790,949</u>	<u>882,650</u>	<u>4,673,599</u>
NET ASSETS, END OF YEAR	<u>\$ 9,401,844</u>	<u>\$ 826,645</u>	<u>\$ 10,228,489</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, 2024

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
PERSONNEL:			
Salaries			
Attorneys	\$ 14,669,980	\$	\$ 14,669,980
Paralegals	3,290,773		3,290,773
Management		1,448,656	1,448,656
Support	1,182,618	144,173	1,326,791
Other	3,376,068	1,794,387	5,170,455
Accrued leave	81,889	22,535	104,424
Fringe benefits	<u>7,656,773</u>	<u>1,154,314</u>	<u>8,811,087</u>
Total personnel	30,258,101	4,564,065	34,822,166
OTHER EXPENSES:			
Space	2,364,706	280,927	2,645,633
Software and IT Equipment	654,919	85,700	740,619
Office supplies, equipment, printing and postage	682,040	42,628	724,668
Telephone and internet costs	610,581	39,041	649,622
Travel	457,060	100,489	557,549
Training	171,330	32,648	203,978
Library & Legal Support	540,063	93,581	633,644
General insurance	172,020	39,374	211,394
Audit		62,739	62,739
Advertising	721,908		721,908
Contract services, clients:			
Paid to private attorneys	251,847		251,847
Pro bono	1,378,090		1,378,090
Contract services, program	227,619	556,560	784,179
Subgrants/subcontracts awarded	6,264,168		6,264,168
Other	397,332	140,798	538,130
Interest expense	255,552		255,552
Depreciation	151,556	94,829	246,385
Loss on disposal of equipment			0
Total other expenses	<u>15,300,791</u>	<u>1,569,314</u>	<u>16,870,105</u>
TOTAL EXPENSES	<u>\$ 45,558,892</u>	<u>\$ 6,133,379</u>	<u>\$ 51,692,271</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, 2023

	Program Services	Support Services	Total
PERSONNEL:			
Salaries			
Attorneys	\$ 14,888,252	\$	14,888,252
Paralegals	3,338,040		3,338,040
Management	45,357	902,056	947,413
Support	1,388,907	162,729	1,551,636
Other	2,344,175	1,944,778	4,288,953
Accrued leave	(51,139)	21,410	(29,729)
Fringe benefits	7,658,614	1,015,258	8,673,872
Total personnel	<u>29,612,206</u>	<u>4,046,231</u>	<u>33,658,437</u>
OTHER EXPENSES:			
Space	2,336,167	261,931	2,598,098
Software maintenance and IT equipment	364,950	79,822	444,772
Office supplies, equipment, printing and postage	513,351	45,670	559,021
Telephone and internet costs	595,659	34,691	630,350
Travel	328,953	16,266	345,219
Training	305,858	17,610	323,468
Library and legal support	509,027	58,906	567,933
General insurance	160,068	25,417	185,485
Audit		67,308	67,308
Advertising	828,492	879	829,371
Contract services, clients:			
Paid to private attorneys	257,565		257,565
Pro bono	1,354,815		1,354,815
Contract services, program	93,450	199,399	292,849
Subgrants/subcontracts awarded	3,740,598		3,740,598
Other	856,299	181,084	1,037,383
Interest expense	231,918		231,918
Depreciation	207,646	148,647	356,293
Loss on disposal of equipment	33,139		33,139
Total other expenses	<u>12,717,955</u>	<u>1,137,630</u>	<u>13,855,585</u>
TOTAL EXPENSES	<u>\$ 42,330,161</u>	<u>\$ 5,183,861</u>	<u>47,514,022</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,028,278)	\$ 5,554,890
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	246,385	356,293
Amortization of right-of-use assets, net	64,983	47,079
Net (gain) loss on disposal of property and equipment	0	(1,401,308)
Noncash change in joint venture	58,738	51,142
Decrease (increase) in operating assets:		
Receivables	1,347,548	453,207
Prepaid expenses	136,667	(11,706)
Deposits	151,717	(216,052)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	1,495,359	59,992
Grants payable	(418,392)	(119,797)
Deferred support	(1,267,369)	(121,651)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>787,358</u>	<u>4,652,089</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales (purchases) of investments	(1,703,429)	0
Proceeds from sale of property and equipment	0	1,434,447
Purchases of property and equipment	(1,533,194)	(366,987)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(3,236,623)</u>	<u>1,067,460</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt	(87,385)	(60,825)
NET CASH USED IN INVESTING ACTIVITIES	<u>(87,385)</u>	<u>(60,825)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,536,650)	5,658,724
Cash and cash equivalents, beginning of year	<u>10,897,682</u>	<u>5,238,958</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,361,032</u>	<u>\$ 10,897,682</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 255,553	\$ 231,918
Noncash investing and financing transactions:		
Operating lease right-of-use assets	1,208,531	754,773
Operating lease obligations	(1,208,531)	(754,773)

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

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2024 and 2023

NOTE A -- THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Organization: Legal Aid of North Carolina, Inc. (LANC/the Organization) 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 Accounting: 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 New Accounting Standard: LANC adopted FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, as amended, on its effective date of July 1, 2023, using the modified retrospective transition approach. ASU 2016-13 changed how entities will measure credit losses for certain financial assets. The most significant change in this standard is a shift from the incurred loss model to the expected loss model (referred to as CECL, *Current Expected Credit Loss*). Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by LANC that are subject to the guidance in FASB ASC 326 include *grants* and *contracts receivable*.

The adoption of FASB ASC 326 resulted in no adjustment to net assets at December 31, 2023. The impact of the adoption on the accompanying financial statements for fiscal 2024 was limited to new disclosures only.

Net Assets: The Organization's net assets have been grouped into the following classes:

Net Assets Without Donor Restrictions: These net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's net assets without donor restrictions also include Board-designated net assets as shown on the statements of financial position. Board-designated net assets are not available to cover operating expenses, including budget shortfalls, unless specifically approved by the Board.

Net Assets With Donor Restrictions: These net assets are subject to restrictions imposed by donors. Certain restrictions are temporary in nature, such as those that are restricted for a particular purpose or for use in a particular period. Other restrictions may be perpetual in nature, such as those that require resources to be maintained in perpetuity. Donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction is satisfied, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. At December 31, 2024 and 2023, the Organization has no net assets with donor restrictions that require resources to be maintained in perpetuity.

Recognition of Support (Nonreciprocal Transactions): LANC evaluates contracts, grants, and contributions 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 606. Promises to give, including grants and contributions to LANC, are generally considered nonreciprocal transactions, and are recognized as support when conditions, if any, have been met. A condition exists if 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. Cost-reimbursement grants are considered conditional until qualifying expenditures are incurred. Event sponsorships are considered conditional until the event is held. Amounts received against conditional promises to give are held as deferred support until conditions for recognition are met. Upon expiration of the grant term, any amounts received for which conditions were not met are recognized as refundable advances.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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

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. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from 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 otherwise 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.

Recognition of Revenues (Exchange Transactions): Revenues are recognized when performance obligations in an exchange transaction are satisfied and are derived primarily from government service contracts. Revenues from service contracts are recognized as services are provided in an amount that reflects the consideration LANC expects to be entitled to receive in exchange for those services. Amounts collected in advance, if any, are included in deferred revenue in the statements of financial position.

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 net assets without donor restrictions 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. LANC reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

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, 2024 and 2023, cash equivalents include \$7,019,584 and \$9,830,197, 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.

Grants and Contracts Receivable: Grants and contracts receivable consist primarily of amounts due from governmental agencies. Given LANC's past history with these federal and state agencies and the collaborative nature of the relationships, management has provided no allowance for credit losses since management believes all amounts are collectible at December 31, 2024 and 2023. Grants and contracts receivable are scheduled for funding within a year and are primarily unsecured. Refer also to the aforementioned *Adoption of New Accounting Standard* in Note A herein.

Investments: Board-designated investments of \$1,703,429 at December 31, 2024, are held in nine bank certificates of deposit bearing interest ranging from 4.05% to 5.25% with maturities through January 30, 2026. Refer also to *Note O-- Fair Value Measurements*.

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

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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

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. No impairment of long-lived assets were identified for the year ended December 31, 2024. Fixed assets having an aggregate cost of \$263,564 and a net book value of \$33,140 were written-off in 2023 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 pro rata share of net operating results, less dividends.

Right-of-Use Lease Assets/Lease Liabilities: LANC determines if an arrangement contains a lease at inception based on whether LANC (as lessee) has the right to control the asset during the contract period and other facts and circumstances (FASB ASC 842). Right-of-use (ROU) assets represent LANC's right to use an underlying asset for the lease term and lease liabilities represent LANC's obligation to make lease payments arising from the lease. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities.

LANC also elected to not separate lease components from non-lease components for all leases and to use a risk-free discount rate for a comparable lease term, if the rate implicit in the lease is not readily determinable.

Refer also to *Note N--Operating Leases*.

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

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 approximate fair value at December 31, 2024 and 2023, 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 the 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>2024</u>	<u>2023</u>
Basic Grant	\$ 16,042,018	\$ 16,042,018
Migrant Workers	700,228	628,246
Native Americans	325,702	302,069
Disaster	1,477,369	1,492,004
Technology Innovation Grant	7,333	0
Pro Bono Innovation	<u>43,982</u>	<u>0</u>
	<u>\$ 18,596,632</u>	<u>\$ 18,464,337</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 2024 and 2023, 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. These services have helped thousands of victims across North Carolina to reduce abuse in their lives.

In 2024 and 2023, LANC received support for Navigators in Federally-facilitated and State Partnership Exchanges. Navigators provide information to consumers about available healthcare options and assist in finding the most affordable coverage that meets their needs.

The Access to Justice Campaign solicits attorneys and other donors to financially support LANC. Each field program runs their own campaign, with support and technical assistance from the Administrative Office. Approximately \$1,631,389 and \$1,052,684 was recognized as support for the years ended December 31, 2024 and 2023, respectively, as a result of these efforts.

In 2024 and 2023, LANC received additional unrestricted funds from Cy Pres awards of \$567,969 and \$1,597,617, respectively. These funds were from residuals of various class action cases.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE C -- TAX STATUS

Legal Aid of North Carolina, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state tax law, except on net income, if any, derived from unrelated business activities. LANC believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. In addition, LANC qualifies for the charitable contributions deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509 (a)(2).

NOTE D -- EMPLOYEE BENEFITS

Defined Contribution Plan: LANC maintains a 401(k) retirement plan on behalf of its employees. Non-excluded 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. Non-excluded 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 \$991,825 for 2024 and \$924,186 for 2023. No matching contributions were approved for 2024 and 2023.

Partially Self-insured Medical Plan: LANC maintains 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, 2024 and 2023, LANC was generally self-insured on claims up to \$200,000 and \$75,000 respectively on behalf of a participant and up to \$6,513,457 and \$5,934,511, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2024</u>	<u>2023</u>
Claims paid, net beginning of year IBNR accrual	\$ 4,772,300	\$ 4,572,542
Less: Reimbursements over stop-loss	(253,713)	(292,079)
Employee withholdings for premiums	(456,163)	(440,596)
Stop-loss premiums, network and administrative fees	584,983	929,925
IBNR accrual, December 31	<u>718,566</u>	<u>640,567</u>
	<u>\$ 5,365,973</u>	<u>\$ 5,410,359</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, 2024 or December 31, 2023.

LSC policy requires that LANC spend an amount equal to 12.5% of their LSC Basic Field Grant on Private Attorney Involvement (“PAI”) activities. LANC reported a \$100,118 deficit of PAI expenses as of December 31, 2024 and a \$51,611 deficit of PAI expenses as of December 31, 2023. Prior to year-end, LANC requested and was granted from LSC a waiver to add this shortfall to LANC’s 2025 PAI requirement.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 37% and 35% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2024 and 2023, 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

	2024			2023		
	<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	\$ 1,585,012	\$ 950,366	\$ 634,646	\$ 1,585,012	\$ 919,712	\$ 665,300
Building improvements	418,657	329,539	89,118	418,657	309,774	108,883
Leasehold improvements	367,633	77,092	290,541	68,581	42,259	26,322
Equipment and furniture	323,388	312,508	10,880	323,388	306,921	16,467
Vehicles	240,433	48,804	191,629	1,883	735	1,148
Website	0	0	0	0	0	0
Software	85,991	81,684	4,307	85,991	77,466	8,525
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 3,021,114</u>	<u>\$ 1,799,993</u>	<u>\$ 1,221,121</u>	<u>\$ 2,483,512</u>	<u>\$ 1,656,867</u>	<u>\$ 826,645</u>

Non-LSC Property

	2024			2023		
	<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	\$ 1,812,181	\$ 207,361	\$ 1,604,820	\$ 1,421,882	\$ 172,439	\$ 1,249,443
Building improvements	229,334	160,133	69,201	182,102	149,086	33,016
Leasehold improvements	405,152	158,087	247,065	132,786	130,566	2,220
Equipment and furniture	450,855	375,146	75,709	443,867	360,877	82,990
Vehicles	190,029	184,842	5,187	190,029	179,224	10,805
Website	195,405	195,405	0	195,405	195,405	0
Software	367,909	348,616	19,293	339,409	338,734	675
Construction in progress	<u>419,568</u>	<u>0</u>	<u>419,568</u>	<u>169,361</u>	<u>0</u>	<u>169,361</u>
	<u>\$ 4,070,433</u>	<u>\$ 1,629,590</u>	<u>\$ 2,440,843</u>	<u>\$ 3,074,841</u>	<u>\$ 1,526,331</u>	<u>\$ 1,548,510</u>
<u>Total Property</u>	<u>\$ 7,091,547</u>	<u>\$ 3,429,583</u>	<u>\$ 3,661,964</u>	<u>\$ 5,558,353</u>	<u>\$ 3,183,198</u>	<u>\$ 2,375,155</u>

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

	December 31,	
	<u>2024</u>	<u>2023</u>
Property and equipment, net of accumulated depreciation	\$ <u>3,661,964</u>	\$ <u>2,375,155</u>
	\$ <u>3,661,964</u>	\$ <u>2,375,155</u>
Without donor restrictions	\$ 1,221,121	\$ 1,548,510
With donor restrictions	<u>2,440,843</u>	<u>826,645</u>
	<u>\$ 3,661,964</u>	<u>\$ 2,375,155</u>

Depreciation and amortization expense totaled \$246,385 and \$356,293 for the years ended December 31, 2024 and 2023, 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--Operating Leases*.

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

	<u>2024</u>	<u>2023</u>
<u>Financial Position:</u>		
Total assets	\$ 4,232,768	\$ 4,348,821
Total liabilities	3,119	1,694
Members’ equity	4,229,649	4,347,127
<u>Operating Results:</u>		
Net loss	\$ (117,478)	\$ (102,283)

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

Capital contribution	\$ 2,250,000	\$ 2,250,000
Pro rata share of joint venture’s net loss	<u>(135,175)</u>	<u>(76,437)</u>
	<u>\$ 2,114,825</u>	<u>\$ 2,173,563</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>2024</u>	<u>2023</u>
LSC (including interest in fixed assets)	\$ 19,291,823	\$ 20,523,370
IOLTA	4,752,098	2,549,869
State	3,001,481	2,194,897
Title III	675,014	733,387
Family Violence	3,432,578	4,553,866
United Way	142,847	317,982
Other	14,867,113	12,057,920
Property:		
Depreciation and loss on disposal	143,125	389,432
LSC interest in fixed assets	<u>(537,601)</u>	<u>(333,427)</u>
	<u>\$ 45,768,478</u>	<u>\$ 42,987,296</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>2024</u>	<u>2023</u>
LSC – Basic General	\$ 0	\$ 0
LSC – Basic Migrant	843,498	702,188
LSC – Basic Native American	183,445	180,100
LSC – Disaster	306,623	1,783,993
NCDHHS – Ombudsman Services	452,579	509,177
County, City, Towns and Other	<u>3,530,767</u>	<u>3,408,823</u>
	<u>\$ 5,316,912</u>	<u>\$ 6,584,281</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>2024</u>	<u>2023</u>
Property	<u>\$ 1,221,121</u>	<u>\$ 826,645</u>

NOTE L -- CONDITIONAL PROMISES TO GIVE

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

<u>Grant Awards</u>	<u>2024</u>	<u>2023</u>
LSC	\$ 16,329,810	\$ 0
NC IOLTA	6,085,000	4,490,000
Statewide Navigator	4,611,671	4,323,334
Family Violence Prevention (FVPE)	0	74,875
Family Violence Prevention (FVPSA) ARP	83,719	0
GCC VOCA (Statewide)	689,757	1,378,870
GCC VOCA Human Trafficking	75,809	199,775
VOCA UVVP	368,834	327,033
VAWA Right to Education	99,905	0
Human Trafficking Commission	25,000	0
City of Durham – Eviction Diversion	296,660	525,015
HUD Fair Housing Initiative PEI	0	225,000
HUD Fair Housing Initiative PEI-ARP	0	425,000
Mecklenburg County	1,975,743	2,606,773
DHHS Ombudsman Services	3,321,052	2,463,419
Forsyth County ARPA	0	78,720
Medicaid Expansion Consortium	0	3,625,000
Forsyth County EJI - ARPA	0	251,877
Center for Family Violence	<u>14,075</u>	<u>0</u>
	<u>\$ 33,977,035</u>	<u>\$ 20,994,691</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE L -- CONDITIONAL PROMISES TO GIVE -- Continued

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2024 and 2023, 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 subawards at December 31:

	<u>2024</u>	<u>2023</u>
Statewide Navigator	\$ 2,736,486	\$ 2,605,016
IOLTA	234,240	234,240
DHHS Ombudsman Services	1,485,337	1,044,473
Medicaid Expansion Consortium	<u>0</u>	<u>2,825,498</u>
	<u>\$ 4,456,063</u>	<u>\$ 6,709,227</u>

NOTE M -- LONG-TERM DEBT

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

	<u>2024</u>	<u>2023</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 plus 2.50% or 3.25% (7.12% at December 31, 2024), 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.	\$ 3,160,022	\$ 3,247,407
Less: Current installments	<u>(99,213)</u>	<u>(84,391)</u>
	<u>\$ 3,060,809</u>	<u>\$ 3,163,016</u>

Principal maturities approximate the following at December 31, 2024:

<u>Year Ending December 31</u>	<u>Maturing Principal</u>
2025	\$ 99,213
2026	106,514
2027	114,352
2028	122,768
2029	131,802
Thereafter	<u>2,585,373</u>
	<u>\$ 3,160,022</u>

LANC recognized interest expense of \$255,552 and \$231,918 on borrowings for the years ended December 31, 2024 and 2023, respectively.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE N -- OPERATING LEASES

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, 2024:

	<u>2024</u>	<u>2023</u>
Operating lease right-of-use assets	\$ <u>5,850,022</u>	\$ <u>5,853,804</u>
Operating lease liabilities, current portion	\$ 1,175,973	\$ 1,086,078
Operating lease liabilities, less current portion	<u>4,974,409</u>	<u>5,003,103</u>
Total operating lease liabilities	\$ <u>6,150,382</u>	\$ <u>6,089,181</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2024</u>	<u>2023</u>
Weighted average remaining lease term	7.5 years	7.5 years
Weighted average discount rate	6.93%	6.80%

The maturities of operating lease liabilities as of December 31, 2024, were as follows:

2025	\$ 1,571,112
2026	1,512,405
2027	1,226,291
2028	725,227
2029	592,295
Thereafter	<u>2,155,485</u>
Total lease payments	7,782,815
Less: Interest	<u>1,632,433</u>
Present value of lease liability	\$ <u>6,150,382</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:

	<u>2024</u>	<u>2023</u>
Space	\$ <u>2,645,633</u>	\$ <u>2,482,604</u>

The following summarizes cash flow information related to leases for the year ended December 31:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 64,983	\$ 47,079
Lease assets obtained in exchange for lease obligations:		
Operating leases	1,302,040	779,630

As of December 31, 2023, LANC has additional operating leases, primarily for additional office space, that have not yet commenced of approximately \$6,790,000. These operating leases will commence in 2025 with lease terms of 4 and 16 years.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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, 2024 and 2023:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>December 31, 2024</u>				
Cash equivalents (Note A)	\$ 7,019,584	\$ 0	\$ 7,019,584	\$ 0
Bank certificates of deposit	<u>1,703,429</u>	<u>0</u>	<u>1,703,429</u>	<u>0</u>
	<u>\$ 8,273,013</u>	<u>\$ 0</u>	<u>\$ 8,723,013</u>	<u>\$ 0</u>
<u>December 31, 2023</u>				
Cash equivalents (Note A)	<u>\$ 9,830,197</u>	<u>\$ 0</u>	<u>\$ 9,830,197</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. Bank certificates of deposit are carried at face value plus accrued earnings thereon, which approximates the fair value of such.

As of December 31, 2024 and 2023, 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, 2024 and 2023.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

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>2024</u>	<u>2023</u>
Financial assets at year-end (cash and cash equivalents, receivables and investments)	\$ 16,877,854	\$ 18,996,723
Less those unavailable for general expenditures within one year, due to:		
Client escrow funds	(70,646)	(46,773)
Board designated reserve	(2,130,187)	(1,500,000)
Revisionary interest in property and equipment	<u>(1,221,121)</u>	<u>(826,645)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,455,900</u>	<u>\$ 16,623,305</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 -- COMMITMENTS AND CONTINGENCIES

Since LANC's formation over two decades ago, the nature of LANC services and reliance on federal, state and local funding support, as well as timing of various grants and programs starting and ending, has required that management continually evaluate and seek sources of new funding, through the Organization's Development and Fundraising activities and other community partnerships. The Organization has taken the necessary actions to offset revenue losses by reviewing and adjusting operating expenses across all categories. LANC has received notice of some funding cuts in 2025 from Federal agencies, and also from State agencies who receive Federal funding or allocate funding to LANC. This has necessitated that LANC take certain actions to offset the expected funding losses, and those actions are in progress. With sufficient cash reserves for fiscal year 2025, the Organization is developing contingency plans should other funding be reduced in the 2026 fiscal year.

NOTE R -- EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2025, the date on which financial statements were available for issue.

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

Grantor/ Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Passed Through to Subrecipients	Total Expenditures
<u>FEDERAL AWARDS:</u>			
<u>Legal Services Corporation:</u>			
Legal Services Corporation Act			
LSC Basic	09.634032	\$	16,720,177 *
LSC Migrant	09.634032		717,260 *
LSC Native American	09.634032		325,702 *
LSC Disaster Relief	09.634032		1,477,369 *
LSC Pro Bono Innovation	09.634032		43,982 *
LSC Technology Innovation	09.634032		7,333 *
 <u>U.S. Department of Justice:</u>			
NC Department of Crime Control and Public Safety,			
Division of Governor's Crime Commission:			
Victims of Crime Act (VOCA) / Domestic Violence			
Prevention Initiative			
Program expenditures	16.575		1,683,281 *
Domestic Violence Advocacy Center (VOCA):			
Human Trafficking			
Program expenditures	16.575		120,499
Domestic Violence Advocacy Center (VOCA):			
Underserved Vulnerable Victims Project			
Program expenditures	16.575		504,122
Domestic Violence Advocacy Center (VAWA):			
Right to Education Project			
Program expenditures	16.540		99,905
Domestic Violence Advocacy Center (OVW):			
Center for Family Violence Prevention			
Program expenditures	16.540		28,150
 <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 Exchanges			
Program expenditures	93.332	\$	3,034,619
			6,716,688 *
 <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		640,155
Cash matching assistance	matching		34,859
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671		90,717
Cash matching assistance	matching		18,143
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671		38,375

* 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 expenditures of federal, state, and other awards.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

Grantor/ Pass-through Grantor/ Program or Cluster Title	Assistance Listing Number	Passed Through to Subrecipients	Total Expenditures
<u>FEDERAL AWARDS:</u>			
<u>US Department of the Treasury:</u>			
Forsyth County ARPA			
Coronavirus State and Local Fiscal Recovery Funds	21.027		78,720
City of Winston Salem ARPA - ED Right to Counsel			
Coronavirus State and Local Fiscal Recovery Funds	21.027		99,467
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418		340,804
Education and Outreach Project	14.416		93,861
Education and Outreach Project - Targeted	14.416		92,117
Fair Housing Organizations Initiative	14.416		<u>56,871</u>
<u>U.S. Department of Veteran Affairs</u>			
Legal Services for Homeless and Veterans At-Risk for Homelessness			
Program expenditures	64.056		171,163
Total Expenditures of Federal Awards			<u>\$ 30,146,718</u>
Total Federal Matching Assistance			<u>\$ 53,002</u>
 <u>STATE AWARDS:</u>			
<u>State of North Carolina:</u>			
North Carolina Department of Health and Human Services:			
Ombudsman services		\$ 1,302,068	\$ 2,658,347
North Carolina State Bar:			
Domestic Violence Victim Assistance Act			<u>834,149</u>
Total State Awards			<u>\$ 3,492,496</u>
 <u>OTHER AWARDS:</u>			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor			\$ 3,165,000
Volunteer Lawyer Program			440,000
Capacity Building			257,067
Home Defense		234,240	600,000
Coordinated Referral System		136,250	<u>278,782</u>
Total Other Awards			<u>\$ 4,740,849</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 expenditures of federal, state, and other awards.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of 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, 2024. The information in this 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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>Assistance Listing Number (if applicable)</u>	<u>Program Name</u>	<u>Passed Through to Subrecipients</u>
93.332	Statewide Navigator	\$ 3,034,619
	Ombudsman Services	1,302,068
	Home Defense	234,240
	Coordinated Referral System	136,250

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, 2024.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

	Basic Field	Migrant	Native American	Pro Bono Innovation	Tech Assessment	Disaster	Total
SUPPORT, REVENUES AND OTHER INCOME:							
LSC grants	\$ 16,042,018	\$ 700,228	\$ 325,702	\$ 43,982	\$ 7,333	\$ 1,477,369	\$ 18,596,632
Donated services	1,375,590						1,375,590
Attorney fees / damages	2,065	17,032					19,097
Interest income	447,707						447,707
Rental income	226,387						226,387
Proceeds from disposal of property and equipment							0
Other revenue and support	2,000						2,000
Total Support and Revenue	18,095,767	717,260	325,702	43,982	7,333	1,477,369	20,667,413
EXPENSES:							
Personnel expenses:							
Salaries:							
Attorney	6,391,130	202,887	175,486	3,974		292,386	7,065,863
Paralegal	1,524,460	116,840	10,128			234,786	1,886,214
Management	149,604	1,057	4,822	5,439		36,863	197,785
Support	343,678	41,636	514			59,442	445,270
Other salaries	946,111	137	4,757	4,804		53,130	1,008,939
Accrued leave		(1,767)					(1,767)
Fringe benefits	3,117,291	125,222	69,087	4,834		237,280	3,553,714
Total Personnel Expenses	12,472,274	486,012	264,794	19,051	0	913,887	14,156,018
Nonpersonnel expenses:							
Space	885,612	43,619	13,449	913		66,487	1,010,080
Software and IT equipment	177,371	8,312	2,792	149		25,070	213,694
Office supplies and equipment, printing/ and postage	199,097	47,759	2,163	147		20,321	269,487
Telephone and internet costs	221,733	9,256	3,466	236		25,851	260,542
Travel	220,299	10,364	2,727			45,934	279,324
Training	94,499	2,846	89			4,689	102,123
Library & Legal Support	192,627	35,568	1,837	125		9,780	239,937
General insurance	84,019	2,832	1,066	72		12,710	100,699

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, 2024

	Basic Field	Migrant	Native American	Pro Bono Innovation	Tech Assessment	Disaster	Total
Contract services, clients:							
Paid to private attorneys	9,620						9,620
Pro Bono	1,375,590						1,375,590
Contract services, programs	56,558		3,000	19,250	6,666		85,474
Indirect costs allocated	1,700,044	64,774	29,432	3,998	667	105,924	1,904,839
Other	107,372	5,918	887	41		8,166	122,384
Total Nonpersonnel Expenses	5,324,441	231,248	60,908	24,931	7,333	324,932	5,973,793
Total Expenses	17,796,715	717,260	325,702	43,982	7,333	1,238,819	20,129,811
Support and revenue over expenses	299,052	0	0	0	0	238,550	537,602
Leasehold Improvements	299,052						299,052
Vehicle Purchase						238,550	238,550
Change in net assets	0	0	0	0	0	0	0
Total net assets:							
Beginning of period	0	0	0	0	0	0	0
End of period	0	0	0	0	0	0	0

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, 2024

SUPPORT

Basic Field grant = \$16,042,018 x 12.5%	\$ 2,005,252
Shortfall from 2023	51,611
Total Support	<u>\$ 2,056,863</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 436,655
Paralegals	86,629
Management and support staff	445,853
	<u>969,137</u>

Fringe benefits	<u>339,198</u>
Total Personnel Expenses	<u>1,308,335</u>

Nonpersonnel Expenses:

Payments to private attorneys	237,156
Nonpersonnel expenses	411,254
Total Nonpersonnel Expenses	<u>648,410</u>

Total Expenses	<u>\$ 1,956,745</u>
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Net PAI expenses under the requirement threshold	<u>\$ 100,118</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, 2024, 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, 2025.

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, 2025



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, 2024. 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, 2024.

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.

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.

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

Raleigh, North Carolina
April 25, 2025

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2024

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

Assistance Listing Number(s)
09.634032

Name of Federal Program or Cluster
Legal Services Corporation Act

Dollar threshold used to distinguish
between type A and type B programs: \$904,401

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, 2024

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, 2023

There are no matters to report.