

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

Legal Aid of North Carolina, Inc.

**Years Ended
December 31, 2018 and 2017**

Audited Financial Statements, Supplementary Information, and Compliance Reports

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2018 and 2017

Audited Financial Statements

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Independent Auditors' Report

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Legal Aid of North Carolina, Inc. (LANC - a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Aid of North Carolina, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report--Continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal, state, and other awards for the year ended December 31, 2018, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying statement of activities for LSC grants, statement of private attorney involvement expenses and summary statement of support, revenue, expenses and changes in net assets (by funding source) as of or for the year ending December 31, 2018, are also presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2019 on our consideration of LANC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LANC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LANC's internal control over financial reporting and compliance.

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

Raleigh, North Carolina
April 22, 2019

Statements of Financial Position

LEGAL AID OF NORTH CAROLINA, INC.

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,237,153	\$ 4,160,177
Client escrow funds	129,685	23,286
Receivables:		
Grants and contracts	2,455,502	1,463,134
Sales tax	41,461	19,235
Other	40,328	13,588
Prepaid expenses	76,335	17,268
Deposits	47,669	46,895
Other	192	0
TOTAL CURRENT ASSETS	<u>6,028,325</u>	<u>5,743,583</u>
PROPERTY AND EQUIPMENT		
Land and buildings	2,085,415	2,086,995
Building improvements	605,316	572,997
Leasehold improvements	178,812	154,355
Equipment and furniture	906,026	886,497
Vehicles	200,983	178,495
Website	138,530	138,530
Construction in progress	239,407	27,500
	<u>4,354,489</u>	<u>4,045,369</u>
Accumulated depreciation	<u>(2,555,465)</u>	<u>(2,480,054)</u>
	<u>1,799,024</u>	<u>1,565,315</u>
TOTAL ASSETS	<u><u>\$ 7,827,349</u></u>	<u><u>\$ 7,308,898</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 169,745	\$ 150,430
Client deposits	129,685	23,286
Accrued vacation	716,791	676,362
Other accrued liabilities	875,762	858,663
Subcontracts/subgrants payable	167,423	333,755
Deferred support/ revenue	204,224	417,090
TOTAL CURRENT LIABILITIES	<u>2,263,630</u>	<u>2,459,586</u>
	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>2,263,630</u>	<u>2,459,586</u>
NET ASSETS		
Without donor restrictions:		
Property and equipment	1,738,066	1,361,393
Other net assets - without donor restrictions	1,880,342	1,711,151
	<u>3,618,408</u>	<u>3,072,544</u>
With donor restrictions:		
Property and equipment	60,958	203,922
Other net assets - with donor restrictions	1,884,353	1,572,846
	<u>1,945,311</u>	<u>1,776,768</u>
TOTAL NET ASSETS	<u>5,563,719</u>	<u>4,849,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,827,349</u></u>	<u><u>\$ 7,308,898</u></u>

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 12,396,854	\$ 12,396,854
Non-LSC grants and contracts	629,766	12,468,157	13,097,923
Matching assistance	441,085	626,282	1,067,367
Donations and contributions:			
In-kind			0
Other	513,512	4,652	518,164
Donated services	1,984,230		1,984,230
Attorney fees / damages		25,798	25,798
Interest income		74,711	74,711
Rental income		238,280	238,280
Net gain on disposal of property and equipment			0
Other revenue and support	15,756	4,887	20,643
Net assets released from restrictions:			
Satisfaction of purpose restrictions	25,671,078	(25,671,078)	0
TOTAL REVENUES AND OTHER SUPPORT	29,255,427	168,543	29,423,970
EXPENSES			
Program services:			
LSC	10,922,536		10,922,536
IOLTA	1,869,279		1,869,279
State grants	0		0
Title III	379,101		379,101
Family Violence	6,037,319		6,037,319
United Way	384,988		384,988
Other	4,300,743		4,300,743
General	226,808		226,808
Property	131,772		131,772
Donated services	2,198,994		2,198,994
	26,451,540	0	26,451,540
Support services:			
Management and general	2,045,038		2,045,038
Fundraising	212,985		212,985
	2,258,023	0	2,258,023
TOTAL EXPENSES	28,709,563	0	28,709,563
CHANGE IN NET ASSETS	545,864	168,543	714,407
Net assets, beginning of year	3,072,544	1,776,768	4,849,312
NET ASSETS, END OF YEAR	\$ 3,618,408	\$ 1,945,311	\$ 5,563,719

See independent auditors' report and notes to financial statements.

Statement of Activities

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
LSC grants	\$	\$ 11,605,565	\$ 11,605,565
Non-LSC grants and contracts	738,837	11,471,872	12,210,709
Matching assistance	272,197	451,683	723,880
Donations and contributions:			
In-kind	33,713		33,713
Other	705,396	9,955	715,351
Donated services	3,121,718		3,121,718
Attorney fees / damages		40,745	40,745
Interest income		51,974	51,974
Rental income		235,813	235,813
Net gain on disposal of property and equipment		5,966	5,966
Other revenue and support	9,989	36,375	46,364
Net assets released from restrictions:			
Satisfaction of purpose restrictions	23,723,591	(23,723,591)	0
TOTAL REVENUES AND OTHER SUPPORT	28,605,441	186,357	28,791,798
EXPENSES			
Program services:			
LSC	9,770,864		9,770,864
IOLTA	1,692,931		1,692,931
State grants	710,127		710,127
Title III	373,863		373,863
Family Violence	4,690,761		4,690,761
United Way	400,100		400,100
Other	4,791,956		4,791,956
General	311,561		311,561
Property	110,753		110,753
Donated services	3,199,868		3,199,868
	26,052,784	0	26,052,784
Support services:			
Management and general	1,930,850		1,930,850
Fundraising	140,881		140,881
	2,071,731	0	2,071,731
TOTAL EXPENSES	28,124,515	0	28,124,515
CHANGE IN NET ASSETS	480,926	186,357	667,283
Net assets, beginning of year	2,591,618	1,590,411	4,182,029
NET ASSETS, END OF YEAR	\$ 3,072,544	\$ 1,776,768	\$ 4,849,312

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

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

See independent auditors' report and notes to financial statements.

Statement of Functional Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2017

	Program Services	Support Services	Total
PERSONNEL:			
Salaries			
Attorneys	\$ 8,506,596	\$	\$ 8,506,596
Paralegals	1,715,855		1,715,855
Management		400,320	400,320
Support	1,430,385	58,025	1,488,410
Other	144,037	661,701	805,738
Accrued leave	20,525	4,805	25,330
Fringe benefits	4,397,983	457,166	4,855,149
Total personnel	16,215,381	1,582,017	17,797,398
OTHER EXPENSES:			
Space	1,161,658	197,759	1,359,417
Equipment	93,835	7,724	101,559
Software maintenance and support	163,948	16,453	180,401
Office supplies/equipment, printing and postage	297,756	30,867	328,623
Telephone and internet costs	449,564	12,833	462,397
Travel	211,181	11,476	222,657
Training	168,820	32,384	201,204
Library expense	161,516	11,167	172,683
General insurance	108,573	9,040	117,613
Dues and fees	126,384	2,342	128,726
Audit		49,500	49,500
Litigation	43,511		43,511
Contract services, clients:			
Paid to private attorneys	429,396		429,396
Pro bono/reduced fee services	194,047		194,047
Pro bono	3,199,868		3,199,868
Contract services, program	190,552	54,800	245,352
Subgrants / subcontracts awarded	1,959,810		1,959,810
Other	648,137	46,436	694,573
Depreciation	103,719	125,027	228,746
Loss on disposal of equipment	7,034		7,034
Allocation of indirect costs	118,094	(118,094)	0
Total other expenses	9,837,403	489,714	10,327,117
TOTAL EXPENSES	\$ 26,052,784	\$ 2,071,731	\$ 28,124,515

See independent auditors' report and notes to financial statements.

Statements of Cash Flows

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 714,407	\$ 667,283
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	264,555	228,746
Net loss on disposal of property and equipment	6,814	1,068
Decrease (increase) in operating assets:		
Receivables	(1,041,334)	393,173
Prepaid expenses	(59,067)	(13,216)
Deposits	(774)	(367)
Other	(192)	365
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	76,843	23,651
Grants payable	(166,332)	(103,227)
Deferred support	<u>(212,866)</u>	<u>416,606</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(417,946)</u>	<u>1,614,082</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	0	5,966
Purchases of property and equipment	<u>(505,078)</u>	<u>(93,261)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(505,078)</u>	<u>(87,295)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(923,024)</u>	<u>1,526,787</u>
Cash and cash equivalents, beginning of year	<u>4,160,177</u>	<u>2,633,390</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,237,153</u></u>	<u><u>\$ 4,160,177</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 0	\$ 0

See independent auditors' report and notes to financial statements.

LEGAL AID OF NORTH CAROLINA, INC.

Years Ended December 31, 2018 and 2017

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.

Change in Accounting Principle: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. LANC adopted ASU No. 2016-14, and has applied the changes retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. This disclosure has been presented for 2018 only, as allowed by ASU No. 2016-14. The new standard changes the following aspects of the financial statements (a) the unrestricted net asset class has been renamed Net Assets Without Donor Restrictions (b) the temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions (c) the financial statements include a disclosure about liquidity and availability of resources (Note M) (d) the format of the statement of cash flows has changed from the indirect method to the direct method of reporting cash flows from operations (if applicable) (e) investment expenses are included in net investment income (if applicable) and (f) additional disclosures related to underwater endowments (if applicable).

Net assets with donor restrictions are created only by donor-imposed restrictions on their use, either as to time or purpose. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon expiration or satisfaction of the restriction.

Method of Accounting: The financial statements are prepared on the accrual basis of accounting.

Recognition of Support: LANC records "unconditional promises to give" in the period such promises are made and reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. Substantially all federal, state, and other grants have stipulations that require reimbursement if such funds are not spent for their intended purpose. Management considers these awards to be "conditional promises to give" and recognizes support therefrom when the possibility of not satisfying such conditions becomes remote.

Donated Services: Donated services are recorded as both a revenue and an expense (or a fixed asset) if the services either enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are valued at the fair value of such services or what LANC would have had to pay for the donated services if such services had been purchased. Donated services of LANC consist primarily of pro bono services provided by attorneys.

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

Donated Property and Equipment: Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, LANC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

LEGAL AID OF NORTH CAROLINA, INC.

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

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, 2018 and 2017, cash equivalents include \$3,142,363 and \$3,906,015, respectively, held in a Short-Term Investment Fund ("STIF Account") with the State Treasurer. Depositories used by the State Treasurer for the investment of these funds must meet certain collateralization requirements. While the potential exists for under collateralization, the State Treasurer of North Carolina enforces strict standards of financial stability for each of its depositories.

Receivables: Receivables consist primarily of grant awards due from federal and state agencies. LANC has provided no provision for uncollectible accounts since management believes all amounts are collectible. Receivables are scheduled for funding within a year and are primarily unsecured.

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

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fixed assets having an aggregate cost of \$195,959 and a net book value of \$6,814 were written-off in 2018 based on management's identification of assets no longer used by LANC.

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

Functional Expense Allocation: LANC allocates its expenses on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among programs and support services based on estimated benefit and/or usage.

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, 2018 and 2017, due to the short-term maturity of these financial instruments. Refer also to *Note L--Fair Value Measurements*.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates. These estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

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.

Grant Awards	Years Ended December 31,	
	2018	2017
Basic Grant	\$ 11,753,358	\$ 10,917,178
Migrant Workers	403,772	463,965
Native Americans	239,724	224,422
Technology	182,000	0
Technology	(182,000)*	0
	<u>\$ 12,396,854</u>	<u>\$ 11,605,565</u>

* to defer recognition of unspent TIG grant.

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

The North Carolina General Assembly ("NCGA") provides dedicated funding from court fees to LANC pursuant to the Access to Civil Justice Act (NCGS § 7A-474.1 et seq.) and 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 both Acts. The NCGA repealed the Access to Civil Justice Act as part of the State Appropriations 2018 budget. As a result, funding for this project ended June 30, 2017. In 2018 and 2017, 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 2018 and 2017, LANC received support for Navigators in Federally-facilitated and State Partnership Exchanges. Navigators provide information to consumers about available healthcare options and assist in finding the most affordable coverage that meets their needs.

The Access to Justice Campaign solicits attorneys to financially support LANC. Each field program runs their own campaign, with support and technical assistance from the Administrative Office. Approximately \$511,000 and \$708,000 was recognized as support for the years ended December 31, 2018 and 2017, respectively, as a result of these efforts.

NOTE C -- TAX STATUS

Legal Aid of North Carolina, Inc. is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes. It has also been determined that LANC is not a private foundation as described in Section 509 (a) of the Internal Revenue Code. Filings for tax years 2015 and later remain open and subject to examination.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE D -- EMPLOYEE BENEFIT PLANS

Defined Contribution Plan: LANC maintains a 401(k) retirement plan on behalf of its employees. Nonexcluded employees may make elective deferrals to the plan beginning on the first day of the payroll period coincident with or following their date of hire. Nonexcluded employees are eligible for employer discretionary contributions after completing one Year of Service as defined by the plan. Participating employees must complete 1,000 hours of service during plan year and be employed on the last day of the plan year to be eligible to share in the employer's discretionary, nonelective contributions (if any) for that plan year. The LANC Board of Directors approved discretionary, nonelective contributions of \$547,188 for 2018 and \$518,540 for 2017. No matching contributions were approved for 2018 and 2017.

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, 2018 and 2017, LANC was generally self-insured on claims up to \$75,000 on behalf of a participant and up to \$3,821,233 and \$3,805,415, respectively, on behalf of participants in the aggregate. LANC recognized the following expenses in connection with its partially self-insured medical plan:

	<u>2018</u>	<u>2017</u>
Claims paid, net beginning of year IBNR accrual	\$ 2,463,707	\$ 2,471,510
Less: Reimbursements over stop-loss	(307,555)	(143,450)
Employee withholdings for premiums	(305,791)	(266,240)
Stop-loss premiums, network and administrative fees	498,528	435,701
IBNR accrual, December 31	<u>264,202</u>	<u>274,496</u>
	<u>\$ 2,613,091</u>	<u>\$ 2,772,017</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, 2018 or December 31, 2017.

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, 2018 and 2017.

NOTE F -- CONCENTRATIONS OF SUPPORT

LANC received approximately 42% and 40% of its revenues and other support from Legal Services Corporation for the years ended December 31, 2018 and 2017, respectively. Refer also to *Note J -- Conditional Promises to Give* herein.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE G -- NET ASSETS RELATED TO PROPERTY AND EQUIPMENT

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

	December 31,	
	2018	2017
Property and equipment, net of accumulated depreciation	\$ 1,799,024	\$ 1,565,315
Less related outstanding debt	<u>0</u>	<u>0</u>
	<u>1,799,024</u>	<u>1,565,315</u>
Unrestricted net asset	1,738,066	1,361,393
Temporarily restricted net assets	<u>60,958</u>	<u>203,922</u>
	<u>\$ 1,799,024</u>	<u>\$ 1,565,315</u>

NOTE H -- NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events as specified by the donors as follows:

	Years Ended December 31,	
	2018	2017
LSC (including interest in fixed assets)	\$ 12,908,284	\$11,463,778
IOLTA	1,889,597	1,712,927
State of North Carolina	0	746,190
Title III	381,824	385,436
Family Violence	6,044,406	4,496,714
United Way	393,972	412,630
Other	3,910,031	4,297,780
Property:		
Depreciation and (gain) loss on disposal	271,369	235,780
LSC interest in fixed assets	<u>(128,405)</u>	<u>(27,644)</u>
	<u>\$ 25,671,078</u>	<u>\$23,723,591</u>

NOTE I -- NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31,	
	2018	2017
LSC	\$ 833,680	\$ 1,012,434
IOLTA	79,471	111,328
Title III	4,051	0
Family Violence	0	6,092
United Way	34,695	0
Other	932,456	442,992
Property	<u>60,958</u>	<u>203,922</u>
	<u>\$ 1,945,311</u>	<u>\$ 1,776,768</u>

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE J -- CONDITIONAL PROMISES TO GIVE

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

Grant Awards	2018	2017
LSC	\$ 12,507,514	\$ 12,396,854
LSC – Technology	182,000	0
NC IOLTA	1,712,525	1,822,740
Statewide Navigator	239,335	1,473,585
Z. Smith Reynolds	250,000	400,000
Rural Community Development Initiative (RCDI)	32,281	41,038
Family Violence Prevention (FVPE)	44,025	42,025
GCC VOCA (Statewide)	6,070,626	2,005,810
GCC VOCA (DVAC)	499,386	197,529
GCC VOCA BIP	861,622	219,978
GCC VOCA Human Trafficking	157,992	167,581
GCC VOCA Elder Abuse	660,626	299,964
Interact VOCA	104,784	0
Interact OVW	75,000	0
NCCADV VOCA	51,848	0
DCRC VOCA	123,760	0
Harbor VOCA	105,355	0
Forsyth County VAWA	44,250	0
DOJ Enhancing Youth Access	133,422	300,000
Blue Cross Blue Shield	100,000	225,000
Kate B. Reynolds	466,000	153,890
OVW/ City of High Point	63,622	159,264
HUD Fair Housing Initiative EOI	14,508	0
HUD Fair Housing Initiative PEI	221,650	0
Cone Health Foundation	123,000	0
Mecklenburg County	298,234	0
City of Raleigh	25,000	0
United Way	396,445	0
Title III	18,907	0
	<u>\$ 25,583,717</u>	<u>\$ 19,905,258</u>

Conditional promises to give (made by LANC) include the following at December 31, 2018: Statewide Navigator subawards of \$142,873, VOCA Elder Abuse subawards of \$96,586, HUD – PEI subawards of \$27,957 and Z. Smith Reynolds subawards of \$122,250.

Neither support nor expense from these conditional promises to give has been recognized as of December 31, 2018 and 2017, respectively. Refer also to Note A for LANC's policy with regard to the "Recognition of Support" and to Note B for a description of LANC's more significant funding sources.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE K -- LEASES

Certain of the LANC offices lease facilities and equipment under operating leases expiring at various times through 2026. At December 31, 2018, future minimum rentals under the long-term leases are as follows:

2019	\$ 942,254
2020	534,279
2021	338,261
2022	221,799
2023	104,386
Thereafter	<u>183,609</u>
	<u>\$ 2,324,588</u>

Lease expense approximated \$1,028,000 and \$965,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE L -- FAIR VALUE MEASUREMENTS

LANC applies U.S. generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 (prior authoritative literature: SFAS No. 157, *Fair Value Measurements*) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority.

The following represents assets measured at fair value on a recurring basis by LANC at December 31, 2018 and 2017:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
<u>December 31, 2018</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash equivalents (Note A)	\$ <u>3,142,363</u>	\$ <u>0</u>	\$ <u>3,142,363</u>	\$ <u>0</u>
<u>December 31, 2017</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash equivalents (Note A)	\$ <u>3,906,015</u>	\$ <u>0</u>	\$ <u>3,906,015</u>	\$ <u>0</u>

Level 2: The fair value of cash equivalents held in a Short-Term Investment Fund (STIF Account) with the State Treasurer is based on cost plus accrued earnings thereon. LANC believes this valuation technique is appropriate given that the State-managed portfolio is invested in highly liquid fixed income securities, consisting primarily of money market instruments and short to intermediate treasuries and agencies.

As of December 31, 2018 and 2017, 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, 2018 and 2017.

Notes to Financial Statements--Continued

LEGAL AID OF NORTH CAROLINA, INC.

NOTE M -- LIQUIDITY AND AVAILABILITY

LANC's financial assets available within one year of the balance sheet date for general expenditure such as operating expenses are as follows:

Cash and cash equivalents	\$ 3,237,153
Accounts receivable	40,328
Grants receivable	<u>2,455,502</u>
	<u>\$ 5,732,983</u>

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

NOTE N -- EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 22, 2019, 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, 2018

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	\$ 12,955,061 *	
<u>U.S. Department of Justice:</u>			
Legal Assistance for Victims:			
VAWA Forsyth County	16.524	54,228	
30th Judicial District DV Alliance (OVW)	16.524	9,000	
Interact (OVW)	16.590	15,000	
Improving Criminal Justice Responses (OVW)	16.590	87,673	
Enhancing Youth Access	16.812	166,578	
Tribal Legal Assistance	16.815	3,513	
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	2,957,228 *	
Matching assistance:			
Cash	matching	345,970	
Non-cash	matching	396,190	
		742,160	
Domestic Violence Advocacy Center (VOCA):			
Program expenditures	16.575	267,933	
Matching assistance:			
Cash	matching	42,554	
Non-cash	matching	22,021	
		64,575	
Domestic Violence Advocacy Center (VOCA): Battered Immigrant Project			
Program expenditures	16.575	311,013	
Matching assistance:			
Cash	matching	65,133	
Non-cash	matching	22,500	
		87,633	
Domestic Violence Advocacy Center (VOCA): Human Trafficking			
Program expenditures	16.575	214,472	
Matching assistance:			
Cash	matching	50,899	
		50,899	
Domestic Violence Advocacy Center (VOCA): Elder Abuse			
Program expenditures	16.575	275,132	50,291
Matching assistance:			
Cash	matching	56,625	
Non-cash	matching	375	
		57,000	
Domestic Violence Advocacy Center (VOCA): NCADV			
Program expenditures	16.575	66,525	
Domestic Violence Advocacy Center (VOCA): DCRC			
Program expenditures	16.575	70,262	
Domestic Violence Advocacy Center (VOCA): Interact			
Program expenditures	16.575	15,216	
Domestic Violence Advocacy Center (VOCA): Harbor			
Program expenditures	16.575	52,509	
Cash matching assistance	matching	6,996	
		6,996	

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

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
<u>FEDERAL AWARDS:</u>			
<u>U.S. Department of Health and Human Services:</u>			
<u>Centers for Medicare and Medicaid Services:</u>			
Cooperative Agreement to Support Navigators in Federally- Facilitated and State Partnership Exchanges Program expenditures	93.332	1,734,249 *	990,400
<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	343,089	
Cash matching assistance	matching	38,146	
Division of Social Services:			
Family Violence Prevention			
Program expenditures	93.671	58,356	
Cash matching assistance	matching	11,200	
<u>U.S. Department of Housing and Urban Development:</u>			
Private Enforcement Initiatives	14.418	78,350	6,172
Education and Outreach Project	14.416	110,492	5,689
<u>U.S. Department of Agriculture:</u>			
The Rural Community Development Initiative (RCDI):			
Program expenditures	10.446	8,758	
Non-cash matching assistance	matching	8,758	
		8,758	
Total Expenditures of Federal Awards		\$ 19,854,637	
Total Federal Matching Assistance		\$ 1,067,367	

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

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

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

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

Grantor/ Pass-through Grantor/ Program or Cluster Title	State and Other Awards		Amounts Provided to Subrecipients
	Receipts	Disbursements	
<u>STATE AWARDS:</u>			
<u>State of North Carolina:</u>			
North Carolina State Bar:			
Domestic Violence Victim Assistance Act	\$ 985,588	\$ 985,627 *	
Total State Awards	\$ 985,588	\$ 985,627	
<u>OTHER AWARDS:</u>			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:</u>			
Legal Services for the Poor	712,110	712,110 *	
Volunteer Lawyer Program	211,630	211,630	
Disaster Relief	0	29,125	
Home Defense	716,639	699,000	
Community Redevelopment	185,000	216,649	
FPLC Community Redevelopment	50,000	50,208	
<u>Z. Smith Reynolds Foundation:</u>			
Home Defense Project	400,000	400,000	252,531
<u>Kate B. Reynolds Charitable Trust:</u>			
Medical Legal Partnership	0	94,456	
Statewide Navigator	487,500	172,568	
Total Other Awards	\$ 2,762,879	\$ 2,585,746	

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

See independent auditors' report as pertains to supplementary information and notes to schedule of federal, state and other awards.

Notes to Schedule of Federal, State, and Other Awards

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of federal, state, and other awards includes the federal, state, and certain other grant activity of Legal Aid of North Carolina, Inc. Federal expenditures are presented on the accrual basis of accounting in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Receipts and disbursements of state and other awards are presented on the cash basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B -- SUBGRANTS AWARDED

Of the expenditures / disbursements presented in the schedule of federal, state and other awards, LANC provided awards to subrecipients as follows:

<u>CFDA Number (if applicable)</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.418	Private Enforcement Initiatives	\$ 6,172
14.416	Education and Outreach Project	5,689
ZSR	Home Defense Project	252,531
93.332	Statewide Navigator	990,400
16.575	Elder Abuse	50,291

NOTE C -- INDIRECT COST RATE

LANC has adopted the de minimis indirect cost rate of 10%.

Statement of Activities for LSC Grants

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

	Basic Field	Migrant	Native American	Total
SUPPORT, REVENUES AND OTHER INCOME:				
LSC grants	\$ 11,753,358	\$ 403,772	\$ 239,724	\$ 12,396,854
Non-LSC grants and contracts	20,245			20,245
Donations and contributions				0
Donated services	1,984,230			1,984,230
Attorney fees / damages	8,886	5,912		14,798
Interest income	74,711			74,711
Rental income	264,812			264,812
Other revenue and support	4,887			4,887
Total Support and Revenue	14,111,129	409,684	239,724	14,760,537
EXPENSES:				
Personnel expenses:				
Salaries:				
Attorney	3,927,369	151,399	120,556	4,199,324
Paralegal	772,091	95,253	22,864	890,208
Management	379,517		5,126	384,643
Support	722,048		20,067	742,115
Other salaries	711,068		11,636	722,704
Accrued leave	38,357	2,072		40,429
Fringe benefits	2,278,473	87,413	59,475	2,425,361
Total Personnel Expenses	8,828,923	336,137	239,724	9,404,784
Nonpersonnel expenses:				
Space	1,149,687	39,892		1,189,579
Equipment	92,217	2,816		95,033
Software maintenance and support	115,831	2,443		118,274
Office supplies, printing/ and postage	289,043	20,668		309,711
Telephone and internet costs	333,533	9,646		343,179
Travel	182,376	4,440		186,816
Training	210,748	10,789		221,537
Library expense	186,308	3,704		190,012
General insurance	95,510	4,887		100,397
Dues and fees	5,557			5,557
Audit	42,138			42,138
Litigation	77,824	1,584		79,408

See independent auditors' report as pertains to supplementary information.

Statement of Activities for LSC Grants--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

	Basic Field	Migrant	Native American	Total
Contract services, clients:				
Paid to private attorneys	140			140
Pro Bono	1,984,230			1,984,230
Contract services, programs	80,613	622		81,235
Indirect costs allocated	(333,595)	22,151		(311,444)
Other	747,093	23,207		770,300
Total Nonpersonnel Expenses	<u>5,259,253</u>	<u>146,849</u>	<u>0</u>	<u>5,406,102</u>
Total Expenses	<u>14,088,176</u>	<u>482,986</u>	<u>239,724</u>	<u>14,810,886</u>
Support and revenue over expenses	22,953	(73,302)	0	(50,349)
Purchase of equipment	<u>(128,405)</u>			<u>(128,405)</u>
Change in net assets	(105,452)	(73,302)	0	(178,754)
Total net assets:				
Beginning of period	<u>939,132</u>	<u>73,302</u>	<u>0</u>	<u>1,012,434</u>
End of period	<u>\$ 833,680</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 833,680</u>

See independent auditors' report as pertains to supplementary information.

Statement of Private Attorney Involvement Expenses

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

SUPPORT

Basic Field grant = \$11,753,358 x 12.5%	\$ 1,469,170
Total Support	<u>\$ 1,469,170</u>

EXPENSES

Personnel Expenses:

Salaries:

Attorneys	\$ 455,893
Paralegals	107,077
Management and support staff	<u>275,323</u>
	<u>838,293</u>

Fringe benefits	<u>276,637</u>
Total Personnel Expenses	<u>1,114,930</u>

Nonpersonnel Expenses:

Payments to private attorneys	271,218
Other contract services	40,569
Nonpersonnel expenses	<u>254,698</u>
Total Nonpersonnel Expenses	<u>566,485</u>

Total Expenses	<u>\$ 1,681,415</u>
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Net PAI expenses over the requirement threshold	<u>\$ (212,245)</u>
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See independent auditors' report as pertains to supplementary information.

Summary Statement of Support, Revenue, Expenses and Change in Net Assets (by Funding Source)

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

(With comparative totals for the year ended December 31, 2017)

2018

	LSC	IOLTA	State Grants	Title III	Family Violence	United Way	Other	General	Total before Intraoffice Eliminations	Intraoffice Eliminations	Property	Total	2017 Total (*)
SUPPORT, REVENUES AND OTHER INCOME:													
LSC grants	\$ 12,396,854	\$ 1,857,740	\$ 0	\$ 343,089	\$ 5,458,936	\$ 428,655	\$ 4,989,258	\$ 0	\$ 12,396,854	\$ 0	\$ 0	\$ 12,396,854	\$ 11,605,565
Non-LSC grants and contracts	20,245			38,146	579,378		8,758		13,097,923			13,097,923	12,210,709
Matching funds					226,321				626,282			626,282	451,683
Matching - pro bono/reduced fee services					214,764				226,321			226,321	194,047
Matching - pro bono					214,764				214,764			214,764	78,150
Donations and contributions				4,640		12		513,512	518,164			518,164	749,064
Donated services	1,984,230								1,984,230			1,984,230	3,121,718
Attorney fees / damages	14,798								25,798			25,798	40,745
Interest income	74,711						11,000		74,711			74,711	51,974
Rental income	264,812								264,812	(26,532)		238,280	235,813
Net gain on disposal of property and equipment									0			0	5,966
Other revenue and support	4,887							15,756	20,643			20,643	46,364
Total Support and Revenue	14,760,537	1,857,740	0	385,875	6,479,399	428,667	5,009,016	529,268	29,450,502	(26,532)	0	29,423,970	28,791,798
EXPENSES:													
Personnel expenses:													
Salaries:													
Attorney	4,199,324	934,457		204,745	3,159,113	178,835	895,347	58,867	9,630,688			9,630,688	8,506,596
Paralegal	890,208	136,104		15,865	343,862	34,748	377,193	27,869	1,825,849			1,825,849	1,715,855
Management	384,643	14,037		2,047		7,205	1,827		409,759			409,759	400,320
Support staff	742,115	140,376		13,084	356,078	29,959	325,843		1,607,455			1,607,455	1,488,410
Other	722,704	24,677		5,134		16,302	165,689		934,506			934,506	805,738
Accrued leave	40,429								40,429			40,429	25,330
Fringe benefits	2,425,361	412,372		79,487	1,193,651	88,117	558,298	28,574	4,785,860			4,785,860	4,855,149
Total Personnel Expenses	9,404,784	1,662,023	0	320,362	5,052,704	355,166	2,324,197	115,310	19,234,546	0	0	19,234,546	17,797,398

(*) Comparative totals do not represent consolidated financial information, but are included for analysis purposes only.
See independent auditors' report as pertains to supplementary information.

Summary Statement of Support, Revenue, Expenses and Change in Net Assets -- (by Funding Source) --Continued

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

(With comparative totals for the year ended December 31, 2017)

2018

	I SC	IOLTA	State Grants	Title III	Family Violence	United Way	Other	General	Total before Intraoffice	Intraoffice Eliminations	Property	Total	2017 Total (*)
Nonpersonnel expenses:													
Space	\$ 1,189,579	\$ 52,058	\$	\$ 17,426	\$ 142,500	\$ 1,692	\$ 84,386	\$ 26,548	\$ 1,514,189	\$ (26,532)	\$	\$ 1,487,657	\$ 1,359,417
Equipment	95,033	4,054		1,289	14,231	135	3,462	1,729	119,933			119,933	101,559
Software maintenance and support	118,274	6,691		2,246	19,742	234	13,403		160,590			160,590	180,401
Office supplies, printing and postage	309,711	13,971		4,117	40,149	857	33,298	1,151	403,254			403,254	328,623
Telephone and internet costs	343,179	18,243		5,740	51,768	2,100	48,744	2,939	472,713			472,713	462,397
Travel	186,816	678			2,719	983	52,658	1,846	245,700			245,700	222,657
Training	221,537	145			18,170		13,574	4,647	258,073			258,073	201,204
Library expense	190,012	7,080		2,163	22,254	225	3,852	2,740	228,326			228,326	172,683
General insurance	100,397	4,651		1,456	13,536	153	3,582		123,775			123,775	117,613
Dues and fees	5,557	62,103		1,622	15,727	171	2,441	67,298	154,919			154,919	128,726
Audit	42,138								42,138			42,138	49,500
Litigation	79,408				300		4,332	297	84,337			84,337	43,511
Contract services, clients:													
Paid to private attorneys	140				244,078		27,000		271,218			271,218	429,396
Pro bono/reduced fee services					226,321				226,321			226,321	194,047
Pro bono	1,984,230				214,764				2,198,994			2,198,994	3,199,868
Contract services, programs	81,235				11,401		119,784		213,542			213,542	245,352
Subgrants/subcontracts awarded					50,291	29,889	1,571,990	(25,250)	1,652,170			1,652,170	1,959,810
Indirect costs allocated	(311,444)			25,403	109,208	2,367	199,716	21,057	859,988			859,988	694,573
Other	770,300	56,778			2,220		9,633		0			264,555	228,746
Depreciation									0			6,814	7,034
Loss on disposal of equipment									0				
Total Nonpersonnel Expenses	5,406,102	227,574	0	61,462	1,199,379	38,806	2,191,855	105,002	9,230,180	(26,532)		9,475,017	10,327,117
Total Expenses	14,810,886	1,889,597	0	381,824	6,252,083	393,972	4,516,052	220,312	28,464,726	(26,532)		28,709,563	28,124,515
Support and revenue over (under) expenses	(50,349)	(31,857)	0	4,051	227,316	34,695	492,964	308,956	985,776	0	(271,369)	714,407	667,283
Purchase of property and equipment	(128,405)				(233,408)		(3,500)	(139,765)	(505,078)			0	0
Change in net assets	(178,754)	(31,857)	0	4,051	(6,092)	34,695	489,464	169,191	480,698	0	233,709	714,407	667,283
Total net assets													
Beginning of year	1,012,434	111,328	0	0	6,092	0	442,992	1,711,151	3,283,997	0	1,565,315	4,849,312	4,182,029
End of year	\$ 833,680	\$ 79,471	\$ 0	\$ 4,051	\$ 0	\$ 34,695	\$ 932,456	\$ 1,880,342	\$ 3,764,695	\$ 0	\$ 1,799,024	\$ 5,563,719	\$ 4,849,312

(*) Comparative totals do not represent consolidated financial information, but are included for analysis purposes only.

See independent auditors' report as pertains to supplementary information.

COMPLIANCE REPORTS



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

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Aid of North Carolina, Inc. (LANC), which comprise the statement of financial position as of December 31, 2018, 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 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LANC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LANC's internal control. Accordingly, we do not express an opinion on the effectiveness of LANC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LANC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Raleigh, North Carolina
April 22, 2019



Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

Board of Directors
Legal Aid of North Carolina, Inc.
Raleigh, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Legal Aid of North Carolina, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *LSC Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on each of Legal Aid of North Carolina, Inc.'s major federal programs for the year ended December 31, 2018. Legal Aid of North Carolina, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Legal Aid of North Carolina, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance); the *LSC Audit Guide for Recipients and Auditors* and the *LSC Compliance Supplement for Audits of LSC Recipients*. Those standards, the Uniform Guidance and the LSC Audit Guide and Compliance Supplement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Legal Aid of North Carolina, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Legal Aid of North Carolina, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Legal Aid of North Carolina, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Legal Aid of North Carolina, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Legal Aid of North Carolina Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Legal Aid of North Carolina, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Raleigh, North Carolina
April 22, 2019

Schedule of Findings and Questioned Costs

LEGAL AID OF NORTH CAROLINA, INC.

Year Ended December 31, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified? _____ yes X no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements, as required to be reported in accordance with *Government Auditing Standards*.

_____ yes X no

Federal Awards

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

Unmodified

Internal control over major federal award programs:

- ◆ Material weakness(es) identified? _____ yes X no
- ◆ Significant deficiency (ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to major federal award programs?

_____ yes X no

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major programs

CFDA Number(s)

09.634032

93.044

16.575

Name of Federal Program or Cluster

Legal Services Corporation Act

Title III B Grants for Supportive Services and Senior Centers

Victims of Crime Act (VOCA)/Domestic Violence Prevention Initiative

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Schedule of Findings and Questioned Costs--Continued

LEGAL AID OF NORTH CAROLINA, INC.

Section II - Financial Statement Findings

No such findings to report.

Section III - Federal Award Findings and Questioned Costs

No such findings to report.

Summary Schedule of Prior Audit Findings

Legal Aid of North Carolina, Inc.

Year Ended December 31, 2018

There are no matters to report.