



PISGAH LEGAL SERVICES

Asheville, North Carolina

Financial Statements and
Supplementary Information

Years Ended December 31, 2018 and 2017

PISGAH LEGAL SERVICES

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PISGAH LEGAL SERVICES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pisgah Legal Services

Report on the Financial Statements

We have audited the accompanying financial statements of Pisgah Legal Services (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 auditors' 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 Pisgah Legal Services 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.

Other Matters

Other Information

Our audits were 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. 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 July 17, 2019, on our consideration of Pisgah Legal Services' 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 Pisgah Legal Services' 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 Pisgah Legal Services' internal control over financial reporting and compliance.

CARTER, P.C.

PISGAH LEGAL SERVICES

Statements of Financial Position December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 2,237,394	\$ 1,559,872
Restricted	1,110	39,223
Grants and contracts receivable	673,151	679,575
Sales tax and other receivables	7,877	6,716
Promises to give, current portion	114,394	249,519
Prepaid and deferred expenses, current portion	94,958	94,060
Deposits	<u>1,694</u>	<u>1,694</u>
Total current assets	3,130,578	2,630,659
Promises to give, net of current portion	21,321	61,048
Prepaid and deferred expenses, net of current portion	50,198	70,108
Endowment investments	753,956	679,918
Beneficial interest in endowment funds	109,380	117,193
Property and equipment	<u>4,476,392</u>	<u>4,480,275</u>
Total assets	<u>\$ 8,541,825</u>	<u>\$ 8,039,201</u>
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$ 30,000	\$ 30,000
Accounts payable	19,744	25,783
Accrued liabilities	131,923	105,503
Client and other deposits	<u>1,710</u>	<u>2,285</u>
Total current liabilities	183,377	163,571
Long-term debt, net of current maturities	<u>187,000</u>	<u>355,500</u>
Total liabilities	<u>370,377</u>	<u>519,071</u>
Net assets:		
Without donor restrictions	7,189,785	6,500,838
With donor restrictions	<u>981,663</u>	<u>1,019,292</u>
Total net assets	<u>8,171,448</u>	<u>7,520,130</u>
Total liabilities and net assets	<u>\$ 8,541,825</u>	<u>\$ 8,039,201</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Activities Year Ended December 31, 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support and other revenues			
State of North Carolina	\$	\$ 247,506	\$ 247,506
Grants and contracts		3,496,732	3,496,732
Donations and contributions	1,049,195	262,307	1,311,502
In-kind contributions	1,034,108		1,034,108
Rental income, net	21,462		21,462
Special events, net	52,065		52,065
Investment income, net	35,703		35,703
Other income	300		300
Net assets released from restrictions	<u>4,044,174</u>	<u>(4,044,174)</u>	
Total public support and other revenues	<u>6,237,007</u>	<u>(37,629)</u>	<u>6,199,378</u>
Expenses			
Program services	4,479,420		4,479,420
Supporting services	912,071		912,071
Provision for bad debt	<u>89,744</u>		<u>89,744</u>
Total expenses	<u>5,481,235</u>		<u>5,481,235</u>
Increase (decrease) in net assets before other losses	<u>755,772</u>	<u>(37,629)</u>	<u>718,143</u>
Other losses			
Net losses on beneficial interest in endowment funds	(8,255)		(8,255)
Net losses on endowment investments	<u>(58,570)</u>		<u>(58,570)</u>
Total other losses	<u>(66,825)</u>		<u>(66,825)</u>
Increase (decrease) in net assets	688,947	(37,629)	651,318
Net assets at beginning of year	<u>6,500,838</u>	<u>1,019,292</u>	<u>7,520,130</u>
Net assets at end of year	<u>\$ 7,189,785</u>	<u>\$ 981,663</u>	<u>\$ 8,171,448</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Activities Year Ended December 31, 2017

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Public support and other revenues			
State of North Carolina	\$	\$ 290,915	\$ 290,915
Grants and contracts		3,210,616	3,210,616
Donations and contributions	941,332	329,931	1,271,263
In-kind contributions	800,974		800,974
Rental income, net	29,829		29,829
Special events, net	47,975		47,975
Investment income, net	22,619		22,619
Gain on sale of property and equipment	3,715		3,715
Net assets released from restrictions	<u>3,836,531</u>	<u>(3,836,531)</u>	
Total public support and other revenues	<u>5,682,975</u>	<u>(5,069)</u>	<u>5,677,906</u>
Expenses			
Program services	4,089,728		4,089,728
Supporting services	839,525		839,525
Provision for bad debt	<u>52,256</u>		<u>52,256</u>
Total expenses	<u>4,981,509</u>		<u>4,981,509</u>
Increase (decrease) in net assets before other gains	<u>701,466</u>	<u>(5,069)</u>	<u>696,397</u>
Other gains			
Net gains on beneficial interest in endowment funds	11,924		11,924
Net gains on endowment investments	<u>71,769</u>		<u>71,769</u>
Total other gains	<u>83,693</u>		<u>83,693</u>
Increase (decrease) in net assets	785,159	(5,069)	780,090
Net assets at beginning of year	<u>5,715,679</u>	<u>1,024,361</u>	<u>6,740,040</u>
Net assets at end of year	<u>\$ 6,500,838</u>	<u>\$ 1,019,292</u>	<u>\$ 7,520,130</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services						
	Legal Services to the Poor	Children's Law Project	Domestic Violence Prevention	Disability Assistance	Volunteer Lawyers/ Hotline	Homelessness Prevention	Elder Law
Salaries:							
Attorneys	\$ 259,668	\$ 74,018	\$ 391,314	\$ 74,045	\$ 14,068	\$ 185,709	\$ 128,168
Paralegals	643	884	6,112	884	804	2,171	2,010
Support	47,626	33,560	321,165	29,501	94,676	41,689	46,332
Administrative							
Contributed services					998,250		
Fringe benefits	<u>98,147</u>	<u>30,521</u>	<u>214,250</u>	<u>30,232</u>	<u>29,761</u>	<u>72,392</u>	<u>57,719</u>
Total salaries and benefits	406,084	138,983	932,841	134,662	1,137,559	301,961	234,229
Occupancy	10,668	1,491	15,041	1,423	1,614	3,265	2,450
Equipment rental	1,824	367	2,302	350	369	803	603
Office supplies	27,529	5,954	37,726	5,685	5,530	13,044	9,787
Postage	4,614	985	6,189	941	1,075	2,159	1,620
Telephone	4,196	846	5,317	808	1,638	1,855	1,392
Travel	1,364	300	2,438	286	231	656	492
Recruitment	497	109	685	104	84	239	179
Staff training	6,023	1,255	8,983	1,199	1,429	2,750	2,064
Library	2,916	630	3,955	601	649	1,380	1,035
Insurance	4,022	861	5,408	822	935	1,887	1,416
Dues and fees	5,699	1,221	7,667	1,166	1,318	2,674	2,007
Litigation	1,046	222	1,395	212	317	487	365
Contract services	750						
Audit and accounting	4,245	907	5,699	866	699	1,988	1,492
Technology	15,470	3,329	20,913	3,179	2,564	7,294	5,474
Other	<u>9,930</u>	<u>295</u>	<u>1,851</u>	<u>281</u>	<u>227</u>	<u>646</u>	<u>484</u>
Total expenses before depreciation	506,877	157,755	1,058,410	152,585	1,156,238	343,088	265,089
Depreciation	<u>16,771</u>	<u>4,744</u>	<u>31,813</u>	<u>4,588</u>	<u>4,739</u>	<u>10,318</u>	<u>7,972</u>
Total expenses	<u>\$ 523,648</u>	<u>\$ 162,499</u>	<u>\$ 1,090,223</u>	<u>\$ 157,173</u>	<u>\$ 1,160,977</u>	<u>\$ 353,406</u>	<u>\$ 273,061</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Functional Expenses (continued)
Year Ended December 31, 2018

	Program Services			Supporting Services			
	Justice for All Project	Health, Education, & Legal Support	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries:							
Attorneys	\$ 75,036	\$ 172,362	\$ 1,374,388	\$	\$	\$	\$ 1,374,388
Paralegals	1,528	1,045	16,081				16,081
Support	55,758	201,347	871,654				871,654
Administrative				325,696	312,851	638,547	638,547
Contributed services			998,250				998,250
Fringe benefits	<u>44,652</u>	<u>96,874</u>	<u>674,548</u>	<u>76,286</u>	<u>74,075</u>	<u>150,361</u>	<u>824,909</u>
Total salaries and benefits	176,974	471,628	3,934,921	401,982	386,926	788,908	4,723,829
Occupancy	1,869	13,843	51,664	3,795	4,359	8,154	59,818
Equipment rental	460	891	7,969	934	1,072	2,006	9,975
Office supplies	7,467	17,798	130,520	15,165	17,413	32,578	163,098
Postage	1,235	2,394	21,212	2,510	2,882	5,392	26,604
Telephone	1,062	6,480	23,594	2,156	2,476	4,632	28,226
Travel	375	1,323	7,465	764	876	1,640	9,105
Recruitment	137	265	2,299	278	319	597	2,896
Staff training	1,574	3,050	28,327	3,198	3,671	6,869	35,196
Library	790	1,530	13,486	1,603	1,842	3,445	16,931
Insurance	1,080	2,092	18,523	2,192	2,518	4,710	23,233
Dues and fees	1,531	2,966	26,249	3,109	3,570	6,679	32,928
Litigation	279	540	4,863				4,863
Contract services			750				750
Audit and accounting	1,138	2,205	19,239	2,311	2,654	4,965	24,204
Technology	4,176	8,090	70,489	8,480	9,738	18,218	88,707
Other	<u>370</u>	<u>715</u>	<u>14,799</u>	<u>751</u>	<u>862</u>	<u>1,613</u>	<u>16,412</u>
Total expenses before depreciation	200,517	535,810	4,376,369	449,228	441,178	890,406	5,266,775
Depreciation	<u>6,028</u>	<u>16,078</u>	<u>103,051</u>	<u>10,085</u>	<u>11,580</u>	<u>21,665</u>	<u>124,716</u>
Total expenses	<u>\$ 206,545</u>	<u>\$ 551,888</u>	<u>\$ 4,479,420</u>	<u>\$ 459,313</u>	<u>\$ 452,758</u>	<u>\$ 912,071</u>	<u>\$ 5,391,491</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services						
	Legal Services to the Poor	Children's Law Project	Domestic Violence Prevention	Disability Assistance	Volunteer Lawyers/ Hotline	Homelessness Prevention	Elder Law
Salaries:							
Attorneys	\$ 222,195	\$ 47,273	\$ 400,633	\$ 100,554	\$ 19,539	\$ 125,994	\$ 64,195
Paralegals	243	793	5,550	1,255	661	1,520	1,453
Support	49,878	44,778	235,979	131,996	48,885	40,145	74,165
Administrative							
Contributed services					794,083		
Fringe benefits	<u>109,546</u>	<u>32,050</u>	<u>199,863</u>	<u>84,882</u>	<u>23,954</u>	<u>64,262</u>	<u>53,286</u>
Total salaries and benefits	381,862	124,894	842,025	318,687	887,122	231,921	193,099
Occupancy	7,510	2,415	15,775	4,651	1,320	3,950	2,045
Equipment rental	1,054	588	2,484	1,135	294	964	499
Office supplies	9,801	6,011	26,940	11,578	2,851	9,833	5,091
Postage	1,480	887	3,965	1,707	632	1,451	751
Telephone	4,579	2,804	13,391	5,402	1,837	4,587	2,375
Travel	591	383	2,926	738	112	626	324
Staff training	2,425	1,392	8,138	2,681	1,107	2,277	1,179
Library	320	181	764	349	248	296	153
Insurance	1,295	785	3,310	1,512	558	1,284	665
Dues and fees	1,923	1,168	4,925	2,249	625	1,910	989
Litigation	419	251	1,059	484	334	411	213
Contract services	1,178		38,720				
Audit and accounting	2,030	1,316	5,551	2,535	389	2,153	1,115
Technology	4,037	2,321	9,790	4,471	686	3,797	1,966
Other	<u>15,410</u>	<u>52</u>	<u>220</u>	<u>101</u>	<u>16</u>	<u>86</u>	<u>44</u>
Total expenses before depreciation	435,914	145,448	979,983	358,280	898,131	265,546	210,508
Depreciation	<u>15,088</u>	<u>4,040</u>	<u>27,193</u>	<u>9,943</u>	<u>6,701</u>	<u>7,374</u>	<u>5,838</u>
Total expenses	<u>\$ 451,002</u>	<u>\$ 149,488</u>	<u>\$ 1,007,176</u>	<u>\$ 368,223</u>	<u>\$ 904,832</u>	<u>\$ 272,920</u>	<u>\$ 216,346</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statement of Functional Expenses (continued)
Year Ended December 31, 2017

	Program Services			Supporting Services			
	Justice for All Project	Health, Education, & Legal Support	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries:							
Attorneys	\$ 58,187	\$ 121,707	\$ 1,160,277	\$	\$	\$	\$ 1,160,277
Paralegals	1,189	396	13,060				13,060
Support	69,969	220,693	916,488				916,488
Administrative				291,064	270,130	561,194	561,194
Contributed services			794,083				794,083
Fringe benefits	<u>49,266</u>	<u>103,337</u>	<u>720,446</u>	<u>76,680</u>	<u>77,943</u>	<u>154,623</u>	<u>875,069</u>
Total salaries and benefits	178,611	446,133	3,604,354	367,744	348,073	715,817	4,320,171
Occupancy	2,435	6,840	46,941	5,665	6,357	12,022	58,963
Equipment rental	594	1,123	8,735	1,382	1,551	2,933	11,668
Office supplies	6,063	13,132	91,300	14,104	15,827	29,931	121,231
Postage	895	1,691	13,459	2,081	2,335	4,416	17,875
Telephone	2,829	13,818	51,622	6,582	7,384	13,966	65,588
Travel	386	1,993	8,079	899	1,008	1,907	9,986
Staff training	1,404	2,654	23,257	3,668	3,664	7,332	30,589
Library	183	345	2,839	426	477	903	3,742
Insurance	792	1,497	11,698	1,841	2,067	3,908	15,606
Dues and fees	1,178	2,227	17,194	2,741	3,075	5,816	23,010
Litigation	253	479	3,903				3,903
Contract services		2,000	41,898				41,898
Audit and accounting	1,328	2,510	18,927	3,089	3,466	6,555	25,482
Technology	2,342	4,426	33,836	5,448	6,113	11,561	45,397
Other	<u>53</u>	<u>99</u>	<u>16,081</u>	<u>131</u>	<u>3,409</u>	<u>3,540</u>	<u>19,621</u>
Total expenses before depreciation	199,346	500,967	3,994,123	415,801	404,806	820,607	4,814,730
Depreciation	<u>5,532</u>	<u>13,896</u>	<u>95,605</u>	<u>8,916</u>	<u>10,002</u>	<u>18,918</u>	<u>114,523</u>
Total expenses	<u>\$ 204,878</u>	<u>\$ 514,863</u>	<u>\$ 4,089,728</u>	<u>\$ 424,717</u>	<u>\$ 414,808</u>	<u>\$ 839,525</u>	<u>\$ 4,929,253</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Statements of Cash Flows Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase in net assets	\$ 651,318	\$ 780,090
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	138,755	128,830
Receipt of donated stock	(91,271)	(118,132)
Contribution through forgiveness of debt	(100,000)	
Net (gains) losses on endowment investments	58,570	(71,769)
Net (gains) losses on beneficial interest in endowment funds	8,255	(11,924)
Provision for uncollectible promises to give	89,744	52,256
Present value adjustment	(3,306)	(749)
Gain on sale of property and equipment		(3,715)
Changes in working capital - sources (uses):		
Grants and contracts receivable	6,424	(29,443)
Sales tax and other receivables	(1,161)	6,105
Promises to give	88,414	(90,583)
Prepaid and deferred expenses	19,012	(88,578)
Accounts payable	(6,039)	978
Accrued liabilities	26,420	(130,252)
Client and other deposits	(575)	(533)
Net cash provided by operating activities	<u>884,560</u>	<u>422,581</u>
Cash flows from investing activities		
Proceeds from sale of investments	89,956	174,521
Proceeds from the sale of property and equipment		3,715
Change in beneficial interest in endowment funds	(442)	(369)
Purchase of investments	(14,610)	(68,937)
Contributions to endowment investments	(116,683)	(101,615)
Contributions to beneficial interest in endowment funds		(250)
Purchase of property and equipment	(134,872)	(134,838)
Net cash used by investing activities	<u>(176,651)</u>	<u>(127,773)</u>
Cash flows from financing activities		
Proceeds from long-term debt		100,000
Principal payments on long-term debt	(68,500)	(46,000)
Net cash provided (used) by financing activities	<u>(68,500)</u>	<u>54,000</u>
Net increase in cash and equivalents	639,409	348,808
Cash and equivalents at beginning of year	<u>1,599,095</u>	<u>1,250,287</u>
Cash and equivalents at end of year	<u>\$ 2,238,504</u>	<u>\$ 1,599,095</u>
Supplemental disclosure for cash flow information		
Cash paid for interest	<u>\$ 9,820</u>	<u>\$ 12,526</u>

The accompanying notes are an integral part of the financial statements.

PISGAH LEGAL SERVICES

Notes to Financial Statements
December 31, 2018

Note 1 - Summary of Significant Accounting Policies

Organization

Pisgah Legal Services (the Organization) was incorporated in September 1979 as a non-profit corporation in the State of North Carolina with its principal office in Asheville, North Carolina. The Organization provides comprehensive, free, civil legal aid for economically disadvantaged individuals in eight counties and specialized free legal assistance in ten additional counties throughout Western North Carolina.

Major Programs

The Organization's principal programs are comprised of:

- *Legal Services to the Poor:* Helps low-income individuals address consumer protection issues, income shortfalls, and manage their limited resources.
- *Children's Law Project:* Helps disadvantaged children avoid homelessness, access essential services such as medical care, public education, and escape situations of abuse.
- *Domestic Violence Prevention:* Helps families secure safety from domestic violence with various remedies through the court system and rebuild their lives.
- *Disability Assistance:* Helps individuals with disabilities access medical care and subsistence income and live with dignity.
- *Volunteer Lawyers/Hotline:* Recruits and trains a network of volunteer lawyers to provide pro bono legal services to the Organization's clients.
- *Homelessness Prevention:* Prevents families and individuals from losing their homes to eviction or foreclosure; secures decent, affordable, and stable housing.
- *Elder Law:* Helps seniors live independently in their homes as long as possible; protects seniors from financial or physical abuse or harassment; assists with end-of-life planning.
- *Justice for All Project:* Helps eligible immigrants comply with technical requirements to work legally and become citizens; addresses other basic needs so that immigrants may lift themselves and their families out of poverty.
- *Health, Education, and Legal Support (HEALS):* Partnership with Mission Hospitals and the Mountain Area Health Education Center, which integrates legal aid with health care to improve health for low-income people. *HEALS* also includes Affordable Care Act assistance provided to help people understand and purchase affordable health insurance in Western North Carolina.

Note 1 - Summary of Significant Accounting Policies (continued)

Income Tax Status

The Organization is incorporated as a nonprofit corporation under the laws of the State of North Carolina. It has qualified for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under section 170(b)(1)(A) and is not a private foundation. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Organization's management and board of directors.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or time period has elapsed) are reported as net assets released from restrictions.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services and interest and dividends earned on investments. Non-operating activities are limited resources that generate return from investments and other activities considered to be more unusual or nonrecurring in nature.

Note 1 - Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of substantially all reported assets and liabilities which represent financial instruments, none of which are held for trading purposes, approximate the carrying values of such amounts.

Cash and Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of client escrow security deposits and note payable collateral funds.

Grants and Contracts Receivable

Grants and contracts receivable consist of unconditional grants awarded or portions of contracts earned but not collected as of December 31, 2018 and 2017. Management considers all of the grants and contracts to be fully collectible; therefore, no allowance has been made.

Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Management provides for probable uncollectible amounts through a provision for uncollectible promises to give.

Investments

The Organization carries investments in debt securities and equity securities with readily determinable market values at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Note 1 - Summary of Significant Accounting Policies (continued)

Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in net assets without restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Fair Value Measurements and Disclosures

The Organization applies the U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Asset and liabilities within the fair value hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Organization's assessment of the significance of an input requires judgement, which may affect the valuation and classification within the fair value hierarchy.

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized as incurred. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of each class of depreciable asset, generally three to thirty-nine years. The Organization has adopted an accounting practice to capitalize all property and equipment with a cost greater than \$1,000 and an estimated useful life greater extending beyond one year.

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

Donated Assets

Donated investments and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated materials and equipment are reflected as in-kind donations at their estimated fair value at the date of donation.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Advertising

The Organization uses advertising to promote the various programs. Advertising costs are not expected to extend beyond the current period and are expensed as incurred. Advertising expense for the years ended December 31, 2018 and 2017, was \$37,688 and \$38,830, respectively.

Functional Allocation of Expenses

The cost of providing program and supporting services activities have been summarized on a functional basis in the statements of activities. Directly identifiable expenses are charged to programs and supporting services. Certain categories of expenses that are attributable to more than one program and supporting service are allocated by statistical means considering the types of cases and time spent on each of those cases.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

During the year ended December 31, 2018, the Organization adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and lack of consistency in the type and information provided about expenses and investment returns between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily and permanently restricted net assets are now combined and reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 3).

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 is intended to improve financial reporting about leasing transactions. The ASU will require lessees to recognize a lease liability and right-of-use asset for most leases, including operating leases. The standard will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Organization is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

In November 2016, FASB issued ASU 2016-18, *Restricted Cash*, (ASU 2016-18). This ASU is intended to clarify the classification and presentation of restricted cash and equivalents in the statement of cash flows. The ASU will require amounts generally described as restricted cash to be included with cash and equivalents when reconciling beginning and ending amounts on the statement of cash flows. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2018. The Organization will not have a financial statement impact as a result of this guidance.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 is intended to clarify and improve the guidance about the distinction between contributions and exchange transactions and determine whether a contribution is conditional. This ASU will be effective for annual periods beginning after December 15, 2018. The Organization is in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

Note 2 - Net Assets

Net assets with and without donor restrictions are as follows:

At December 31	2018	2017
Net assets without donor restrictions:		
Undesignated	\$ 1,477,057	\$ 918,952
Board designated:		
Endowment fund	753,956	679,918
Beneficial interest in endowment funds	109,380	117,193
Capital and operating reserve	590,000	590,000
Investment in property and equipment	<u>4,259,392</u>	<u>4,194,775</u>
Net assets without donor restrictions	<u>7,189,785</u>	<u>6,500,838</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Legal Services to the Poor	295,929	378,964
Children's Law Project	25,400	62,075
Domestic Violence Prevention	47,991	46,267
Disability Assistance	20,928	21,018
Volunteer Lawyers/Hotline	28,750	44,250
Homelessness Prevention	114,501	34,358
Elder Law	9,469	9,003
Justice for All Project	18,438	84,732
Health, Education, and Legal Support	420,257	256,725
Capital Campaign		<u>81,900</u>
Net assets with donor restrictions	<u>981,663</u>	<u>1,019,292</u>
Total net assets	<u>\$ 8,171,448</u>	<u>\$ 7,520,130</u>

Note 3 - Liquidity and Availability of Financial Assets

The Organization receives significant contributions and promises to give restricted by donors, and considers those program contributions, which are ongoing, major, and central to its operations, to be available to meet cash needs for general expenditures.

The Organization manages liquidity and reserves utilizing three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets to fund near-term operating needs, and
- Dedicated reserves to provide reasonable assurance that obligations are met and to guard against unexpected circumstances.

The Organization targets year-end reserve balances of undesignated net assets without restrictions to meet at least 90 days of expected expenditures. To achieve this target, the Organization forecasts future cash flows and monitors liquidity on a quarterly basis.

Note 3 - Liquidity and Availability of Financial Assets (continued)

The Organization maintains a line of credit to meet short-term working capital needs with access to up to \$300,000 to meet general expenditure needs.

The following reflects the liquidity and availability of the Organization's financial assets:

At December 31	2018	2017
Financial assets:		
Cash and equivalents	\$ 2,238,504	\$ 1,599,095
Grants and contracts receivable	673,151	679,575
Sales tax and other receivables	7,877	6,716
Promises to give, net	135,715	310,567
Endowment investments	753,956	679,918
Beneficial interest in endowment funds	<u>109,380</u>	<u>117,193</u>
Total financial assets	3,918,583	3,393,064
Amounts not available for general expenditure:		
Board designated:		
Endowment fund	(753,956)	(679,918)
Beneficial interest in endowment funds	(109,380)	(117,193)
Capital and operating reserve	(590,000)	(590,000)
Total net assets with donor restrictions	(981,663)	(1,019,292)
Add back: restricted grants and contracts receivable	236,827	241,232
Add back: promises to give, current portion	<u>114,394</u>	<u>249,519</u>
Net financial assets available to meet cash needs for <u>general expenditures within one year</u>	<u>\$ 1,834,805</u>	<u>\$ 1,477,412</u>

Note 4 - Promises to Give

Unconditional promises to give are described as follows:

At December 31	2018	2017
Due in less than one year	\$ 114,394	\$ 249,519
One to five years	<u>24,200</u>	<u>170,316</u>
Total unconditional promises to give	138,594	419,835
Less, allowance for uncollectable promises to give	(1,424)	(104,507)
Less, discount to net present value at 4.50%	<u>(1,455)</u>	<u>(4,761)</u>
<u>Promises to give</u>	<u>\$ 135,715</u>	<u>\$ 310,567</u>

Note 5 - Beneficial Interest in Endowment Funds

The Organization has established endowment funds at the Community Foundation of Western North Carolina, Inc. (CFWNC) and Community Foundation of Henderson County, Inc. (CFHC). The purpose of these funds is to support the charitable work of the Organization. The Board of Directors of the foundations have variance power, which is the absolute authority and discretion as to the investment and reinvestment of the assets. Variance power also allows the Board of Directors of the foundations to modify any condition or restriction on distributions of funds if, in its sole judgment (without the approval of any trustee, custodian, or agent), such condition or restriction becomes in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the areas served by the foundations. Distributable income is available to the Organization annually. In most circumstances, endowment principal will not be distributed. However, upon agreement by the Board of Directors of foundations and the Board of Directors of the Organization, all or a portion of the principal may be distributed. The Organization's current intent is to retain distributable income in the funds. The carrying amount of the beneficial interest in endowment funds at December 31, 2018 and 2017, was \$109,380 and \$117,193, respectively.

The Organization is also the specified beneficiary for a designated endowment fund held by the Community Foundation of Henderson County, Inc. The fair value of the fund at December 31, 2018 and 2017, was \$45,876, and \$52,118, respectively. In accordance with professional standards, the balance of the designated endowment fund is not reflected in the Organization's financial records.

Note 6 - Fair Value Measurements

Endowment investments consist of money market funds and mutual funds that are recorded to fair value based on current quoted market prices provided by investment custodians or other models. Certificates of deposit are recorded at fair market value as provided by the investment custodian. The beneficial interest in endowment funds is reported at fair value based on information provided by the foundations. The fair value of each financial instrument in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments:

At December 31, 2018	Level 1	Level 2	Level 3	Total
Money market	\$ 3,962	\$	\$	\$ 3,962
Mutual funds:				
Equity index	467,910			467,910
Bond index	83,151			83,151
Certificates of deposit		198,933		198,933
Total endowment investments	555,023	198,933		753,956
Beneficial interest in endowment funds			109,380	109,380
Total endowment investments and beneficial interest	\$ 555,023	\$ 198,933	\$ 109,380	\$ 863,336

Note 6 - Fair Value Measurements (continued)

At December 31, 2017	Level 1	Level 2	Level 3	Total
Money market	\$ 51	\$	\$	\$ 51
Mutual funds:				
Equity index	441,700			441,700
Bond index	238,167			238,167
Total endowment investments	679,918			679,918
Beneficial interest in endowment funds			117,193	117,193
Total endowment investments and beneficial interest	\$ 679,918	\$	\$ 117,193	\$ 797,111

A reconciliation of changes in Level 3 inputs is as follows:

Years Ended December 31	2018	2017
Level 3 inputs, beginning of year	\$ 117,193	\$ 104,650
Investment income	1,469	1,359
Investment expenses	(1,027)	(990)
Contributions		250
Realized gains	2,617	1,797
Unrealized gains (losses)	(10,872)	10,127
Level 3 inputs, end of year	\$ 109,380	\$ 117,193

Note 7 - Property and Equipment

A description of property and equipment is as follows:

At December 31	2018	2017
Land	\$ 2,109,230	\$ 2,109,230
Equipment and furniture	292,413	319,950
Vehicles	62,904	45,227
Buildings and improvements	2,906,215	2,858,136
	5,370,762	5,332,543
Less, accumulated depreciation	894,370	852,268
Property and equipment	\$ 4,476,392	\$ 4,480,275

Depreciation expense for the years ended December 31, 2018 and 2017, was \$138,755 and \$128,830, respectively.

Note 8 - Accrued Liabilities

A description of accrued liabilities is as follows:

At December 31	2018	2017
Accrued compensated absences	\$ 128,778	\$ 101,161
Deferred rental income	<u>3,145</u>	<u>4,342</u>
Accrued liabilities	\$ 131,923	\$ 105,503

Note 9 - Long-term Debt

Long-term Debt is described as follows:

At December 31	2018	2017
Promissory note with a stated interest rate of 3.5%. The note requires sixty-two monthly interest only payments, four annual principal payments of \$30,000 each, and a balloon payment of all outstanding interest and principal in December 2021. The note is secured by real property located at 62 Charlotte Street, Asheville, North Carolina.	\$ 85,000	\$ 115,000
Promissory note with a stated interest rate of 3.5%. The note requires fifty-nine monthly payments of interest only, and a balloon payment of all outstanding principal and interest in June 2020. The note is secured by real property located at 169 North Main Street, Rutherfordton, North Carolina.	132,000	132,000
Promissory note with a stated interest rate of 3.5%. The note requires fifty-nine monthly payments of interest only, and a balloon payment of all outstanding principal and interest in June 2020. The note is secured by a cash account held with the financial institution.		38,500
Unsecured promissory note with a stated interest rate of 1.15%. The note requires two annual payments of interest only beginning in May 2018, and a balloon payment of all outstanding principal and interest in May 2020.	<u>217,000</u>	<u>100,000</u> 385,500
Less, current maturities of long-term debt	<u>30,000</u>	<u>30,000</u>
Long-term debt, net of current maturities	\$ 187,000	\$ 355,500

Note 9 - Long-term Debt (continued)

Interest expense for the years ended December 31, 2018 and 2017, was \$9,820 and \$11,980, respectively.

Principal repayments on long-term debt are as follows:

<u>Years Ending December 31</u>	
2019	\$ 30,000
2020	162,000
2021	25,000
2022	
2023	
<hr/>	
Total long-term debt	\$ 217,000

Note 10 - Line of Credit

The Organization maintains a line of credit to meet short-term working capital needs. Maximum borrowings are \$300,000 and the line is secured by real estate at 62 Charlotte St. Interest is charged at the Prime Rate as published by the Wall Street Journal. As of December 31, 2018, the interest rate was 5.5%. The line of credit did not have an outstanding balance at December 31, 2018 and 2017, and matures in August 2021.

Note 11 - Rental Activities

The Organization leases a portion of its office building to other entities. Following is a schedule of rental activities:

<u>Years Ended December 31</u>	<u>2018</u>	<u>2017</u>
Rental income	\$ 45,700	\$ 55,573
Rental expenses:		
Depreciation expense	14,039	14,307
Interest expense	857	1,126
Property taxes	5,952	6,007
Utilities	2,844	3,032
Maintenance	546	1,272
Total rental expenses	24,238	25,744
Rental income, net	\$ 21,462	\$ 29,829

Future minimum payments to be received under all non-cancelable operating leases are \$15,220 through May 2019.

Note 12 - In-kind Contributions

In-kind contributions are summarized as follows:

<u>Years Ended December 31</u>	<u>2018</u>	<u>2017</u>
Pro bono legal services	\$ 998,250	\$ 794,083
Advertising	22,120	
Other professional services	6,567	
Materials and other	<u>7,171</u>	<u>6,891</u>
<u>In-kind contributions</u>	<u>\$ 1,034,108</u>	<u>\$ 800,974</u>

Pro bono services are valued using a standard rate of \$250 per service hour.

Volunteers also provided a variety of tasks that assist the Organization with specific objectives throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. The Organization received approximately 11,276 and 10,708 volunteer hours that did not meet the recognition criteria during the years ended December 31, 2018 and 2017, respectively.

Note 13 - Income Taxes

Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization 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.

The Organization has received rental income for commercial space it owns at 62 Charlotte Street. The building is debt-financed and as such the net rental income is subject to unrelated business income tax as specified in the Internal Revenue Code. For the years ended December 31, 2018 and 2017, the rental activity generated a net income of \$21,462 and \$29,829, respectively. Management has determined the income taxes for unrelated business income in 2018 is not material.

Open Tax Years

The Organization's Return of Organization Exempt From Income Tax (Form 990) and Exempt Organization Business Income Tax Return (Form 990-T) for the years ended December 31, 2017, 2016, and 2015, are subject to examination by the IRS, generally for three years after they were filed.

Note 14 - Related Party Transactions

During the years ended December 31, 2018 and 2017, the Organization received contributions from members of the Board of Directors totaling \$35,030 and \$30,419, respectively.

Note 15 - Concentrations of Credit Risk

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018 and 2017, the uninsured cash balance was \$1,727,967 and 1,145,946, respectively.

Note 16 - Commitments and Contingencies

Lease Commitments

The Organization leases office space under operating lease agreements. Total rent expense for all operating leases for the years ended December 31, 2018 and 2017, was \$9,950 and \$9,650, respectively.

Future minimum payments under all non-cancelable operating leases are \$4,000 through 2019.

Governmental Assisted Programs

The Organization has received proceeds from governmental agencies. Periodic audits of these grants and third party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the agreements. Such audits could result in the refund of grant and third party reimbursement monies to the grantor agencies. Management believes that any required refunds would be immaterial. No provisions have been made in the accompanying financial statements for the refund of grant monies or third party reimbursements.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial and professional liability insurance coverage for risks of loss. Claims have not exceeded coverage in any period since inception.

Note 17 - Retirement Plan

At the Board of Director's discretion, the Organization contributes to a 401(k) plan for all eligible employees. Employees are eligible after the first quarterly enrollment date after six months of employment. The contribution is based on an established percentage of the employee's annual compensation. For the years ended December 31, 2018 and 2017, the Organization's contribution totaled 6.5% of eligible compensation or \$155,084 and \$165,037, respectively.

Note 18 - Subsequent Events

Management has evaluated subsequent events through July 17, 2019, the date on which the financial statements were available to be issued.

COMPLIANCE SECTION

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

To the Board of Directors
Pisgah Legal Services

We have audited, 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, the financial statements of Pisgah Legal Services (a nonprofit organization), 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 July 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pisgah Legal Services' 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 Pisgah Legal Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Pisgah Legal Services' 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.

To the Board of Directors
Pisgah Legal Services

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pisgah Legal Services' 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*.

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.



Asheville, North Carolina
July 17, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Pisgah Legal Services

Report on Compliance for Each Major Federal Program

We have audited Pisgah Legal Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Pisgah Legal Services' major federal programs for the year ended December 31, 2018. Pisgah Legal Services' 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 Pisgah Legal Services' 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; the audit 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). Those standards and the Uniform Guidance 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 Pisgah Legal Services' 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 Pisgah Legal Services' compliance.

To the Board of Directors
Pisgah Legal Services

Opinion on Each Major Federal Program

In our opinion, Pisgah Legal Services 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 Pisgah Legal Services 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 Pisgah Legal Services' 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 Pisgah Legal Services' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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.

To the Board of Directors
Pisgah Legal Services

Purpose of this Report

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.

CARTER, P.C.

Asheville, North Carolina
July 17, 2019

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards Year Ended December 31, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>
FEDERAL AWARDS			
<u>U.S. Department of Justice</u>			
Violence Against Women Office:			
Passed through Mediation Center:			
Justice Systems Response to Families	16.021	2016-FJ-AX-0007	\$ 41,773
Office for Victims of Crime:			
Passed through N.C. Department of Public Safety: Governor's Crime Commission:			
Crime Victim Assistance:			
Mountain Violence Prevention Program 2018	16.575	PROJ013002	81,357
Response to Domestic Violence in WNC 2016	16.575	PROJ011577	229,497
Legal Services for Rural, Immigrant and Underserved Communities in WNC	16.575	PROJ012238	273,719
Passed through Buncombe County:			
Family Justice Center Project	16.575	PROJ012140	99,466
Passed through Safelight:			
Henderson County Emergency Legal Assistance	16.575	PROJ013018	40,730
Total Crime Victim Assistance			<u>724,769</u>
Total U.S. Department of Justice			<u>766,542</u>
<u>U.S. Department of Health and Human Services</u>			
Centers for Medicare and Medicaid Services:			
Passed through Legal Aid of North Carolina:			
Cooperative Agreement to Support Navigators in Federally-Facilitated and State Partnership Marketplaces	93.332	5NAVCA150223-03-00	106,982
Administration for Children and Families:			
Passed through North Carolina Council for Women and Youth Involvement:			
Family Violence Prevention and Services	93.671	56-1191115	48,142

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued) Year Ended December 31, 2018

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (continued)			
<u>U.S. Department of Health and Human Services (continued)</u>			
Administration for Community Living:			
Aging Cluster:			
Passed through Land of Sky Regional Council:			
Special Projects for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	18-008 & 19-008	\$ 35,575
Passed through Isothermal Planning and Development Commission:			
Special Projects for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		9,074
Passed through Henderson County:			
Special Projects for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		30,830
Passed through Madison County:			
Special Projects for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		1,040
Passed through Transylvania County:			
Special Projects for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		8,238
Total Aging Cluster			<u>84,757</u>
Total U.S. Department of Health and Human Services			<u>239,881</u>
<u>U.S. Department of Housing and Urban Development</u>			
Office of Community Planning and Development:			
Passed through City of Asheville, North Carolina:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants: Homelessness Prevention Project	14.218	91800244 & 91900329	<u>37,822</u>
Total federal awards			<u>\$ 1,044,245</u>

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued) Year Ended December 31, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>
STATE AWARDS			
<u>North Carolina Housing Finance Agency</u>			
Passed through Legal Aid of North Carolina:			
North Carolina State Home Foreclosure Prevention Project			\$ 78,000
<u>North Carolina State Bar</u>			
Passed through North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts:			
Provide Legal Services to Veterans 2019		G20F200PLS18VET & G20F200PLS19VET	100,000
Domestic Violence Victim Assistance Act		G20F200PLS18DV & G20F200PLS19DV	69,506
Total North Carolina State Bar			<u>169,506</u>
Total state awards			\$ <u>247,506</u>
OTHER AWARDS			
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts</u>			
Legal Services to the Poor		2017-3	\$ 41,625
Mountain Area Volunteer Lawyer Program		2018-10	42,840
Bank of America Community Redevelopment and Foreclosure Prevention Grant		BofA2016-6	357,113
Bank of America Foreclosure Prevention Grant		2018-16	<u>100,000</u>
Total other awards			\$ <u>541,578</u>

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued)
Year Ended December 31, 2018

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

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal, state, and other awards (SEFSA) includes the federal and state grant activity of Pisgah Legal Services under programs of the federal government, the State of North Carolina, and other awarding agencies for the year ended December 31, 2018. The information in this SEFSA 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 SEFSA presents only a selected portion of the operations of Pisgah Legal Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pisgah Legal Services.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the SEFSA 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 - Indirect Cost Rate

Pisgah Legal Services has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PISGAH LEGAL SERVICES

Schedule of Findings and Questioned Costs 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? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over compliance:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

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

Any audit findings disclosed that are required to be
reported in accordance with section 2 CFR
section 200.516(a)? _____ yes X no

Identification of major federal programs:
CFDA Number 16.575 - Crime Victim Assistance

The threshold for distinguishing Type A and Type B programs was \$750,000.

Pisgah Legal Services was determined to be a low-risk auditee.

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

PISGAH LEGAL SERVICES

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018

No findings were reported for the year ended December 31, 2017.

No findings were reported for the year ended December 31, 2016.