



PISGAH
LEGAL SERVICES

PISGAH LEGAL SERVICES

Asheville, North Carolina

Financial Statements and
Supplementary Information

Years Ended December 31, 2022 and 2021

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 Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pisgah Legal Services as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pisgah Legal Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pisgah Legal Services' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pisgah Legal Services' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our 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 schedule of expenditures of federal, state, and other awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2023, 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.

Asheville, North Carolina
July 13, 2023

PISGAH LEGAL SERVICES

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and equivalents:		
Unrestricted	\$ 4,746,062	\$ 6,839,075
Restricted	510	3,010
Grants and contracts receivable	1,145,484	626,481
Other receivables	11,987	8,582
Promises to give, current portion	2,063	127,055
Prepaid and deferred expenses	48,647	71,753
Advance grant payments	136,065	22,874
Deposits	400	400
Total current assets	6,091,218	7,699,230
Promises to give, net of current portion	54,956	9,363
Endowment investments	1,125,297	1,344,980
Beneficial interest in endowment funds	140,358	156,526
Operating lease right-of-use asset	170,481	
Property and equipment	4,080,998	4,168,725
Total assets	\$ 11,663,308	\$ 13,378,824
Liabilities and net assets		
Current liabilities:		
Current maturities of operating lease liability	\$ 104,534	\$
Accounts payable	67,579	60,059
Accrued liabilities	306,790	223,230
Deferred revenue	992,568	2,861,983
Client and other deposits	510	3,010
Total current liabilities	1,471,981	3,148,282
Operating lease liability, net of current maturities	66,480	
Total liabilities	1,538,461	3,148,282
Net assets:		
Without donor restrictions	9,412,148	9,247,461
With donor restrictions	712,699	983,081
Total net assets	10,124,847	10,230,542
Total liabilities and net assets	\$ 11,663,308	\$ 13,378,824

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

PISGAH LEGAL SERVICES

Statement of Activities
Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and other revenues			
Grants and contracts	\$ 456,349	\$ 6,936,501	\$ 7,392,850
Contributions	2,672,451	50,000	2,722,451
In-kind contributions	715,733		715,733
Rental income, net	38,550		38,550
Special events, net	58,883		58,883
Investment income, net	42,457		42,457
Net assets released from restrictions	<u>7,256,883</u>	<u>(7,256,883)</u>	
Total public support and other revenues	<u>11,241,306</u>	<u>(270,382)</u>	<u>10,970,924</u>
Expenses			
Program services	9,000,466		9,000,466
Supporting services	<u>1,805,686</u>		<u>1,805,686</u>
Total expenses	<u>10,806,152</u>		<u>10,806,152</u>
Increase (decrease) in net assets before other losses	<u>435,154</u>	<u>(270,382)</u>	<u>164,772</u>
Other losses			
Net losses on endowment investments	(243,552)		(243,552)
Net losses on beneficial interest in endowment funds	<u>(26,915)</u>		<u>(26,915)</u>
Total other losses	<u>(270,467)</u>		<u>(270,467)</u>
Increase (decrease) in net assets	164,687	(270,382)	(105,695)
Net assets at beginning of year	<u>9,247,461</u>	<u>983,081</u>	<u>10,230,542</u>
Net assets at end of year	<u>\$ 9,412,148</u>	<u>\$ 712,699</u>	<u>\$ 10,124,847</u>

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

PISGAH LEGAL SERVICES

Statement of Activities
Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and other revenues			
Grants and contracts	\$	\$ 5,561,647	\$ 5,561,647
Contributions	1,735,773	712,776	2,448,549
In-kind contributions	786,853		786,853
Rental income, net	27,035		27,035
Special events, net	65,217		65,217
Investment income, net	27,364		27,364
Net assets released from restrictions	<u>6,214,606</u>	<u>(6,214,606)</u>	
Total public support and other revenues	<u>8,856,848</u>	<u>59,817</u>	<u>8,916,665</u>
Expenses			
Program services	7,161,677		7,161,677
Supporting services	<u>1,527,740</u>		<u>1,527,740</u>
Total expenses	<u>8,689,417</u>		<u>8,689,417</u>
Increase in net assets before other gains	<u>167,431</u>	<u>59,817</u>	<u>227,248</u>
Other gains			
Net gains on endowment investments	115,813		115,813
Net gains on beneficial interest in endowment funds	<u>14,945</u>		<u>14,945</u>
Total other gains	<u>130,758</u>		<u>130,758</u>
Increase in net assets	298,189	59,817	358,006
Net assets at beginning of year	<u>8,949,272</u>	<u>923,264</u>	<u>9,872,536</u>
Net assets at end of year	<u>\$ 9,247,461</u>	<u>\$ 983,081</u>	<u>\$ 10,230,542</u>

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

PISGAH LEGAL SERVICES

Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services						
	Legal Services to the Poor	Children's Law	Domestic & Sexual Violence Prevention	Consumer Law	Mountain Area Volunteer Lawyers	Homelessness Prevention	Elder Law
Salaries and benefits:							
Attorneys	\$ 206,844	\$ 150,354	\$ 674,243	\$ 151,095	\$ 36,852	\$ 484,685	\$ 196,041
Paralegals	41,446				86,914		
Support	323,224	12,078	380,875	8,722	95,996	240,374	4,227
Administrative							
Contributed services					679,573		
Fringe benefits	<u>174,096</u>	<u>55,322</u>	<u>341,665</u>	<u>52,967</u>	<u>55,586</u>	<u>246,797</u>	<u>60,286</u>
Total salaries and benefits	745,610	217,754	1,396,783	212,784	954,921	971,856	260,554
Occupancy	28,953	3,757	30,077	3,032	5,767	10,637	2,917
Equipment rental	1,898	201	1,557	166	332	608	185
Office supplies	40,770	5,916	28,087	3,043	12,430	8,920	2,581
Postage	7,259	517	3,565	334	718	1,380	344
Telephone	12,331	1,372	11,263	1,292	2,484	3,631	1,108
Travel	4,856	224	2,265	46	168	2,719	98
Recruitment	3,134	412	3,397	278	679	867	215
Staff training	16,620	1,770	14,846	1,439	3,678	9,314	1,436
Library	9,146	536	4,227	430	928	1,677	421
Insurance	11,595	722	6,916	597	1,432	1,851	466
Dues and fees	10,193	1,482	11,043	1,147	2,934	4,071	1,122
Litigation	14,223	725	6,087	26	812		63
Contract services							
Audit and accounting		387	341	42	81	139	49
Technology	21,767	3,440	23,106	2,435	5,355	7,684	2,380
Client Assistance	36,193					12,820	
Other	12,395	224	881	91	198	315	88
Outsourced legal services	<u>1,011</u>	<u>126</u>	<u>9,315</u>	<u>122</u>	<u>237</u>	<u>410</u>	<u>149</u>
Total expenses before depreciation	977,954	239,565	1,553,756	227,304	993,154	1,038,899	274,176
Depreciation	<u>14,738</u>	<u>2,104</u>	<u>17,626</u>	<u>1,724</u>	<u>3,820</u>	<u>5,535</u>	<u>1,608</u>
Total expenses	<u>\$ 992,692</u>	<u>\$ 241,669</u>	<u>\$ 1,571,382</u>	<u>\$ 229,028</u>	<u>\$ 996,974</u>	<u>\$ 1,044,434</u>	<u>\$ 275,784</u>

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

PISGAH LEGAL SERVICES

Statement of Functional Expenses (continued)
Year Ended December 31, 2022

	Program Services				Supporting Services			
	Justice for All	WNC Health and Economic Opportunity	Community Economic Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits:								
Attorneys	\$ 148,888	\$ 377,780	\$ 165,670	\$ 2,592,452	\$	\$	\$	\$ 2,592,452
Paralegals		69,470		197,830				197,830
Support	42,886	1,439,902	22,617	2,570,901	8,375	22,265	30,640	2,601,541
Administrative					532,521	601,628	1,134,149	1,134,149
Contributed services				679,573				679,573
Fringe benefits	<u>63,895</u>	<u>593,054</u>	<u>60,590</u>	<u>1,704,258</u>	<u>154,962</u>	<u>179,061</u>	<u>334,023</u>	<u>2,038,281</u>
Total salaries and benefits	255,669	2,480,206	248,877	7,745,014	695,858	802,954	1,498,812	9,243,826
Occupancy	3,274	59,770	3,149	151,333	11,423	15,047	26,470	177,803
Equipment rental	195	3,179	149	8,470	573	940	1,513	9,983
Office supplies	3,724	206,229	3,426	315,126	9,421	104,392	113,813	428,939
Postage	2,008	6,865	357	23,347	1,212	10,082	11,294	34,641
Telephone	1,226	26,718	1,261	62,686	4,114	5,604	9,718	72,404
Travel	1,357	16,145	36	27,914	250	652	902	28,816
Recruitment	526	9,322	526	19,356	1,307	2,613	3,920	23,276
Staff training	1,720	32,862	1,910	85,595	5,749	7,875	13,624	99,219
Library	463	8,637	612	27,077	1,562	2,120	3,682	30,759
Insurance	1,093	12,420	812	37,904	1,795	2,182	3,977	41,881
Dues and fees	2,626	25,181	1,180	60,979	5,177	7,437	12,614	73,593
Litigation	63,064	4,441	32	89,473	98	131	229	89,702
Contract services			50,001	50,001	7,291		7,291	57,292
Audit and accounting	52	754	25	1,870	37,378	182	37,560	39,430
Technology	2,415	56,787	3,070	128,439	9,034	33,052	42,086	170,525
Client Assistance				49,013				49,013
Other	105	1,819	109	16,225	1,761	495	2,256	18,481
Outsourced legal services	<u>2,393</u>	<u>2,155</u>	<u>74</u>	<u>15,992</u>	<u>376</u>	<u>539</u>	<u>915</u>	<u>16,907</u>
Total expenses before depreciation	341,910	2,953,490	315,606	8,915,814	794,379	996,297	1,790,676	10,706,490
Depreciation	<u>1,788</u>	<u>33,629</u>	<u>2,080</u>	<u>84,652</u>	<u>6,394</u>	<u>8,616</u>	<u>15,010</u>	<u>99,662</u>
Total expenses	<u>\$ 343,698</u>	<u>\$ 2,987,119</u>	<u>\$ 317,686</u>	<u>\$ 9,000,466</u>	<u>\$ 800,773</u>	<u>\$ 1,004,913</u>	<u>\$ 1,805,686</u>	<u>\$ 10,806,152</u>

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

PISGAH LEGAL SERVICES

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services						
	Legal Services to the Poor	Children's Law	Domestic & Sexual Violence Prevention	Consumer Law	Mountain Area Volunteer Lawyers	Homelessness Prevention	Elder Law
Salaries and benefits:							
Attorneys	\$ 206,189	\$ 68,638	\$ 597,153	\$ 65,893	\$ 178,459	\$ 358,292	\$ 122,176
Paralegals	13,639	4,540	39,499	4,359	11,805	23,700	8,082
Support	133,824	44,549	387,572	42,767	115,826	232,544	79,296
Administrative							
Contributed services					727,035		
Fringe benefits	<u>112,502</u>	<u>37,451</u>	<u>325,818</u>	<u>35,953</u>	<u>97,372</u>	<u>195,492</u>	<u>66,662</u>
Total salaries and benefits	466,154	155,178	1,350,042	148,972	1,130,497	810,028	276,216
Occupancy	7,945	2,646	23,844	2,539	6,878	13,809	4,708
Equipment rental	687	229	1,989	219	594	1,193	407
Office supplies	11,410	3,696	35,247	3,621	10,221	19,429	6,754
Postage	1,317	430	5,197	412	1,117	2,666	765
Telephone	4,424	1,473	12,811	1,414	3,829	7,687	2,621
Travel	1,657	56	1,984	54	145	669	99
Recruitment	2,598	855	7,466	852	2,253	4,523	1,521
Staff training	1,850	794	11,511	762	3,037	4,987	1,413
Library	1,552	493	4,293	474	1,317	2,576	878
Insurance	2,268	755	6,569	725	1,963	3,941	1,344
Dues and fees	2,260	752	7,683	722	2,131	3,927	1,339
Litigation		77	3,690	74	338	1,494	156
Contract services	444	148	1,286	142	384	772	263
Audit and accounting	1,783	593	5,163	570	1,543	3,098	1,056
Technology	6,810	2,267	19,721	2,176	5,894	11,833	4,035
Client Assistance	68,297					302,881	
Other	<u>3,390</u>	<u>399</u>	<u>3,465</u>	<u>383</u>	<u>1,035</u>	<u>2,079</u>	<u>709</u>
Total expenses before depreciation	584,846	170,841	1,501,961	164,111	1,173,176	1,197,592	304,284
Depreciation	<u>7,914</u>	<u>2,635</u>	<u>22,921</u>	<u>2,529</u>	<u>6,851</u>	<u>13,753</u>	<u>4,690</u>
Total expenses	<u>\$ 592,760</u>	<u>\$ 173,476</u>	<u>\$ 1,524,882</u>	<u>\$ 166,640</u>	<u>\$ 1,180,027</u>	<u>\$ 1,211,345</u>	<u>\$ 308,974</u>

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

PISGAH LEGAL SERVICES

Statement of Functional Expenses (continued)
Year Ended December 31, 2021

	Program Services				Supporting Services			
	Justice for All	WNC Health and Economic Opportunity	Community Economic Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits:								
Attorneys	\$ 105,703	\$ 564,481	\$ 82,366	\$ 2,349,350	\$	\$	\$	\$ 2,349,350
Paralegals	6,992	37,339	5,448	155,403				155,403
Support	68,605	366,368	53,458	1,524,809				1,524,809
Administrative					604,414	355,430	959,844	959,844
Contributed services				727,035				727,035
Fringe benefits	<u>57,674</u>	<u>307,994</u>	<u>44,941</u>	<u>1,281,859</u>	<u>192,272</u>	<u>113,067</u>	<u>305,339</u>	<u>1,587,198</u>
Total salaries and benefits	238,974	1,276,182	186,213	6,038,456	796,686	468,497	1,265,183	7,303,639
Occupancy	4,074	21,755	3,174	91,372	10,118	9,385	19,503	110,875
Equipment rental	352	1,880	274	7,824	875	811	1,686	9,510
Office supplies	5,691	122,980	4,458	223,507	14,129	94,023	108,152	331,659
Postage	696	4,393	516	17,509	1,651	14,212	15,863	33,372
Telephone	2,268	12,110	1,767	50,404	5,630	5,225	10,855	61,259
Travel	659	1,582	67	6,972	212	227	439	7,411
Recruitment	1,316	7,720	1,057	30,161	4,018	3,094	7,112	37,273
Staff training	1,223	8,848	953	35,378	5,605	4,609	10,214	45,592
Library	760	4,058	592	16,993	1,887	1,751	3,638	20,631
Insurance	1,163	6,209	906	25,843	2,887	2,679	5,566	31,409
Dues and fees	1,159	6,948	903	27,824	2,879	5,230	8,109	35,933
Litigation	1,488	1,287	92	8,696	293	469	762	9,458
Contract services	228	1,216	177	5,060	565	524	1,089	6,149
Audit and accounting	914	4,881	712	20,313	22,957	2,106	25,063	45,376
Technology	3,491	19,220	2,720	78,167	8,668	13,472	22,140	100,307
Client Assistance				371,178				371,178
Other	<u>614</u>	<u>3,289</u>	<u>478</u>	<u>15,841</u>	<u>1,522</u>	<u>1,421</u>	<u>2,943</u>	<u>18,784</u>
Total expenses before depreciation	265,070	1,504,558	205,059	7,071,498	880,582	627,735	1,508,317	8,579,815
Depreciation	<u>4,057</u>	<u>21,667</u>	<u>3,162</u>	<u>90,179</u>	<u>10,075</u>	<u>9,348</u>	<u>19,423</u>	<u>109,602</u>
Total expenses	<u>\$ 269,127</u>	<u>\$ 1,526,225</u>	<u>\$ 208,221</u>	<u>\$ 7,161,677</u>	<u>\$ 890,657</u>	<u>\$ 637,083</u>	<u>\$ 1,527,740</u>	<u>\$ 8,689,417</u>

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

PISGAH LEGAL SERVICES

Statements of Cash Flows Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (105,695)	\$ 358,006
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	99,662	117,272
Receipt of donated stock	(79,466)	(106,644)
Net (gains) losses on endowment investments	243,552	(115,813)
Net (gains) losses on beneficial interest in endowment funds	26,915	(14,945)
Present value adjustment	1,664	
Amortization of right-of-use assets	46,632	
Changes in working capital - sources (uses):		
Grants and contracts receivable	(519,003)	82,939
Other receivables	(3,405)	15
Promises to give	77,735	74,743
Prepaid and deferred expenses	23,106	177,352
Advance grant payments	(113,191)	
Accounts payable	7,520	(16,626)
Accrued liabilities	83,560	35,992
Deferred revenue	(1,869,415)	2,166,469
Client and other deposits	(2,500)	1,244
Operating lease liability	(46,099)	
Net cash provided (used) by operating activities	(2,128,428)	2,760,004
Cash flows from investing activities		
Proceeds from sale of investments	102,359	153,503
Purchase of investments	(46,762)	(69,548)
Contributions to endowment investments		(46,465)
Contributions to beneficial interest in endowment funds	(8,241)	
Change in beneficial interest in endowment funds	(2,506)	(1,710)
Purchase of property and equipment	(11,935)	(18,879)
Net cash provided by investing activities	32,915	16,901
Net increase (decrease) in cash and equivalents and restricted cash	(2,095,513)	2,776,905
Cash and equivalents and restricted cash at beginning of year	6,842,085	4,065,180
Cash and equivalents and restricted cash at end of year	\$ 4,746,572	\$ 6,842,085
Schedule of noncash investing and financing activities		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 217,113	\$ _____

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

PISGAH LEGAL SERVICES

Notes to Financial Statements
December 31, 2022 and 2021

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Organization

Pisgah Legal Services (the Organization) pursues justice to improve lives for low-income people in Western North Carolina through legal assistance and advocacy. Pisgah Legal Services was incorporated in September 1979 as a nonprofit corporation in the State of North Carolina with its principal office in Asheville, North Carolina. The Organization provides free civil legal aid, anti-poverty advocacy, and access to health care to people with low incomes in Western North Carolina (WNC). Pisgah Legal Services annually helps more than 21,000 people meet their most basic needs for housing, safety, income, and health care.

Pisgah Legal Services envisions a community where all people have access to civil legal assistance when they need it to protect their basic rights and secure essentials, such as housing, health care, income, and safety from abuse. We envision a community with policies and services in place that reduce poverty and ease the burdens of poverty on our neighbors.

Program Descriptions

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, including clearing criminal records and restoring drivers' licenses removing barriers to employment, housing, education, and benefits. Also assists homeless or otherwise vulnerable military veterans by obtaining or maintaining stable housing, securing disability benefits, and accessing quality health care and health insurance.
- *Children's Law:* Helps disadvantaged children avoid homelessness, escape abuse/maltreatment, , and access essential services, such as medical care and education.
- *Domestic & Sexual Violence Prevention:* Helps survivors of domestic violence and/or sexual assault take legal action to escape abuse and rebuild their lives and financial stability.
- *Consumer Law:* Defends consumer rights, addresses fraud, and stops predatory lending practices by protecting clients' limited income and resources from unfair debt collection. Also helps medical patients address legal issues that impact "social determinants" that impact their health, such as domestic violence, housing, or crushing debt.
- *Mountain Area Volunteer Lawyer Program:* Harnesses the power of volunteer attorneys by providing opportunities to serve Pisgah Legal clients pro bono.
- *Homelessness Prevention:* Prevents families and individuals from losing their homes to eviction or foreclosure, improves existing housing conditions.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Program Descriptions (continued)

- *Elder Law*: Helps seniors live independently in their homes for as long as possible. Protects seniors from financial or physical abuse or harassment and assists with end-of-life planning.
- *Justice for All*: Helps eligible WNC immigrants work legally, secure legal status, and addresses other basic poverty needs. Provides legal documents to address cases of family separation.
- *WNC Health and Economic Opportunity*: Obtains and protects public benefits for people with low incomes, including SNAP, SSI/SSDI, Medicaid and Social Security. Assists Medicaid beneficiaries and applicants to protect Medicaid rights through legal advice and representation. Provides a low-income taxpayer clinic, offering tax controversy services to low-income and English as a second language taxpayers through education and representation in federal and state tax disputes. Helps people enroll in Affordable Care Act health insurance plans and helps low-income families gain access to increased income through the Earned Income Tax Credit, ACA Tax Credit and Child Tax Credits.
- *Community Economic Development*: Increases jobs and affordable housing through advocacy and by providing technical, legal assistance to support and build capacity of nonprofits, faith groups, small businesses, and local governments.

Income Tax Status

The Organization is incorporated as a nonprofit corporation under the laws of the State of North Carolina. The Organization is exempt 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.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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 donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Organization has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions or grants received for a specific purpose. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or 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 endowment investments and beneficial interest in endowment funds. Non-operating activities are limited to resources that generate return from endowment investments and beneficial interest in endowment funds and other activities considered to be more unusual or nonrecurring in nature.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than promises to give, endowment investments, and beneficial interest in endowment funds approximate fair value due to the relatively short-term nature of the financial instruments.

Amounts recognized for promises to give approximates fair value due to the allowance for uncollectible promises to give and net present value adjustments applied to outstanding balances.

Fair value of endowment investments and beneficial interest in endowment funds are discussed in Note 6.

Cash and Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except those amounts designated and classified as investments. Restricted cash consists of client escrow security deposits and deposits for legal filings and forms on behalf of clients.

Grants, Contracts, and Other Receivables

Grants and contracts receivable consist of unconditional grants awarded or portions of contracts earned but not collected as of December 31, 2022 and 2021.

Other receivables consist primarily of sales tax receivables.

All grants, contracts, and other receivables are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full payment is not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines collection is unlikely.

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 fair value, which is measured as 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. Amortization of the discount is included in contributions. Management provides for probable uncollectible amounts through a provision for uncollectible promises to give.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are recognized in the statements of activities.

Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in net assets with restrictions until the related restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished).

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.

Assets 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 judgment, which may affect the valuation and classification within the fair value hierarchy.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed. The Organization has adopted an accounting policy to capitalize all property and equipment with a cost greater than \$5,000 and an estimated useful life extending one year. 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.

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 marketable securities are recorded as contributions at their estimated fair value at the date of donation. Donated materials and equipment are reflected as in-kind contributions at their estimated fair value at the date of donation. Noncash donated assets are described in Note 10.

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. Donated services are described in Note 10.

Revenue Recognition

Contributions are recognized when cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return or right of release of the obligation - are not recognized until the conditions on which they depend have been met.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

A portion of the Organization's grant and contract revenue is from cost-reimbursable federal, state, county, and private grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant or contract provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position. The Organization received conditional grants of \$958,953 and \$2,848,688, that have not been recognized as of December 31, 2022 and 2021, respectively. These amounts will be included in deferred revenue until qualifying expenditures have been incurred or refunded to the grantor as unexpended grant funding.

The Organization also recognizes revenue from acting as a lessor in operating leases. Revenue is recorded as rental income in the statements of activities and is accounted for on the straight-line basis over the lease term. Rental income is presented net of related rental expenses as disclosed in Note 8, Rental Activities.

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, 2022 and 2021, was \$160,352 and \$168,798, respectively.

Functional Allocation of Expenses

The costs of providing program and supporting services activities have been summarized on a functional basis in the statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. All expenses except for attorneys, paralegals, support, administrative, contributed services, and client assistance are allocated based on estimates of time and effort. Attorneys, paralegals, support, contributed services, and client assistance are directly related to program services. Administrative is directly related to supporting services.

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, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Newly Adopted Accounting Pronouncements

During the year ended December 31, 2022, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB).

- Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 clarifies and expands the presentation and disclosure requirements of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. These additional note disclosures are included in Note 10.
- In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC), 842, *Leases*. This new guidance required recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Additional note disclosures are also required.

The Organization adopted the guidance effective January 1, 2022, and recognized and measured leases existing at, or entered into after, the date of adoption. The Organization did not adjust the prior period balance sheet. Lease disclosures for the year ended December 31, 2021, are presented under the previous guidance.

An election has been made to apply the short-term lease exception to all leases with a term of 12 months or less. Short-term lease costs do not reflect ongoing short-term lease commitments which are described in Note 8.

The Organization elected the available package of practical expedients allowed by the standard, to account for existing operating leases under the new guidance, without reassessing:

- whether the contracts contain leases under the new guidance,
- whether the lease classification would be different under the new guidance, or
- whether previously capitalized costs continue to qualify as initial direct costs.

Additionally, an election has been made to account for lease and non-lease components as a single combined lease component.

As a result of the adoption of the new lease accounting guidance, on January 1, 2022, the Organization recognized a lease liability of \$217,113, which represents the present value of the remaining operating lease payments of \$228,079, discounted using the Organization's incremental borrowing rate of 6.25%. A right-of-use asset in the amount of \$217,113 was also recorded at that time.

Note 2 - Net Assets

Net assets are described as follows:

<u>At December 31</u>	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
Undesignated	\$ 2,211,940	\$ 2,314,972
Board designated:		
Endowment fund	1,093,663	1,307,238
Beneficial interest in endowment funds	140,358	156,526
Capital and operating reserve	1,885,722	1,300,000
Investment in property and equipment	<u>4,080,465</u>	<u>4,168,725</u>
Net assets without donor restrictions	<u>9,412,148</u>	<u>9,247,461</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose or period:		
Legal Services to the Poor	118,565	231,123
Domestic & Sexual Violence Prevention		44,967
Income Security	15,000	
Volunteer Lawyers/Hotline	12,687	14,583
Homelessness Prevention	156,355	48,750
Justice for All		58,383
Health, Justice, and Medical-Legal Partnership	228,458	352,353
Community Economic Development	<u>150,000</u>	<u>195,180</u>
Total subject to expenditure for specified purpose or period	681,065	945,339
Not subject to spending policy or appropriation:		
Endowment investment in perpetuity	<u>31,634</u>	<u>37,742</u>
Net assets with donor restrictions	<u>712,699</u>	<u>983,081</u>
Total net assets	<u>\$ 10,124,847</u>	<u>\$ 10,230,542</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.

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

The Organization targets year-end reserve balances of undesignated net assets 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.

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

<u>At December 31</u>	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and equivalents	\$ 4,746,572	\$ 6,842,085
Grants and contracts receivable	1,145,484	626,481
Other receivables	11,987	8,582
Promises to give, net	57,019	136,418
Endowment investments	1,125,297	1,344,980
Beneficial interest in endowment funds	<u>140,358</u>	<u>156,526</u>
Total financial assets	<u>7,226,717</u>	<u>9,115,072</u>
Amounts not available for general expenditure:		
Board designated:		
Endowment fund	(1,093,663)	(1,307,238)
Beneficial interest in endowment funds	(140,358)	(156,526)
Capital and operating reserve	(1,885,722)	(1,300,000)
Total net assets with donor restrictions	(712,699)	(983,081)
Add back: restricted grants and contracts receivable	17,225	35,975
Add back: promises to give, current portion	<u>2,063</u>	<u>127,055</u>
Total amounts not available for general expenditure	<u>(3,813,154)</u>	<u>(3,583,815)</u>
Net financial assets available to meet cash needs for <u>general expenditures within one year</u>	<u>\$ 3,413,563</u>	<u>\$ 5,531,257</u>

Line of Credit

In January 2022, the Organization established a line of credit agreement to meet short-term working capital needs. Maximum borrowings are \$1,000,000 and the line is secured by real estate. Interest is established at the prime rate as published by the Wall Street Journal, 7.5% at December 31, 2022. The line of credit did not have an outstanding balance at December 31, 2022.

During 2021, the Organization maintained a line of credit to meet short-term working capital needs. Maximum borrowings were \$300,000 and the line was secured by real estate. Interest was charged at the prime rate as published by the Wall Street Journal, 3.25% at December 31, 2021. The line of credit did not have an outstanding balance at December 31, 2021, as it matured in August 2021.

Note 4 - Contract Assets and Liabilities

Grants and contracts receivable and promises to give represent the Organization's contract assets with an unconditional right to receive consideration from customers. Grants and contracts receivable are recorded at invoiced amounts or amounts expected to be receivable based on contractual terms without conditions. Promises to give are recorded at net realizable value.

The following table provides information about contract assets:

<u>At December 31</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Grants and contracts receivable	<u>\$ 1,145,484</u>	<u>\$ 626,481</u>	<u>\$ 709,420</u>
Promises to give:			
Due in less than one year	17,595	131,380	206,123
One to five years	<u>57,257</u>	<u>10,000</u>	<u>10,000</u>
Total unconditional promises to give	74,852	141,380	216,123
Less, allowance for uncollectible promises to give	(15,532)	(4,325)	(4,325)
Less, discount to net present value at 4%	<u>(2,301)</u>	<u>(637)</u>	<u>(637)</u>
Promises to give, net	<u>57,019</u>	<u>136,418</u>	<u>211,161</u>
<u>Total contract assets</u>	<u>\$ 1,202,503</u>	<u>\$ 762,899</u>	<u>\$ 920,581</u>

Contract liabilities are recorded when a customer pays consideration, or the Organization has a right to an amount of consideration that is unconditional, before the transfer of a good or performance of a service to the customer. Thus, the Organization has an obligation to transfer the goods or service to the customer at a future date. The Organization's contract liabilities consist of deferred revenue and client and other deposits. Deferred revenue consists of conditional contributions and rental payments received in advance. Conditional contributions will be recognized as revenue once the conditions have essentially been fulfilled. Rental payments received in advance will be recognized once the performance obligations are met. The Organization also received consideration from clients for security deposits and deposits for legal filings and forms on behalf of clients. These deposits will be recognized as services are provided. Any unused portions are refunded to the client.

Note 4 - Contract Assets and Liabilities (continued)

Significant changes in contract liabilities from contracts with customers are as follows:

<u>At December 31</u>	<u>2022</u>	<u>2021</u>
Deferred revenue, beginning of year	\$ 2,861,983	\$ 695,514
Revenue recognized that was included in deferred revenue at the beginning of the year	(2,861,983)	(695,514)
Increase in deferred revenue due to cash received during year	<u>992,568</u>	<u>2,861,983</u>
Deferred revenue, end of year	<u>992,568</u>	<u>2,861,983</u>
Client and other deposits, beginning of year	3,010	1,766
Deposits used for services provided or refunded to client	(3,010)	(1,766)
Increase in client and other deposits due to cash received during year	<u>510</u>	<u>3,010</u>
Client and other deposits, end of year	<u>510</u>	<u>3,010</u>
<u>Total contract liabilities</u>	<u>\$ 993,078</u>	<u>\$ 2,864,993</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 the distribution 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 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, 2022 and 2021, was \$140,358 and \$156,526, respectively.

The Organization is also the specified beneficiary for a designated endowment fund held by CFHC. The fair value of the fund at December 31, 2022 and 2021, was \$58,023 and \$65,490, respectively. An additional legacy fund held by CFWNC was established in March 2019. The fair value of the fund at December 31, 2022 and 2021 was \$219,744 and \$259,788, respectively. In accordance with professional standards, the balances of these funds are not reflected in the Organization's financial records.

Note 6 - Fair Value Measurements

Endowment investments and beneficial interest in endowment funds are reported in the accompanying financial statements at estimated fair value in accordance with the fair value hierarchy. The following is a description of the valuation methodologies used for assets measured at fair value:

Cash and Money Market Funds

Cash and money market funds are valued using observable market data and are categorized as Level 1 to the degree that they can be valued based on quoted market prices in active markets. Although these funds are readily available, it is the intent of the Organization to hold them for investment purposes and therefore has classified them as investments.

Equity Investments

Equity investments consist of mutual funds. These investments are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied.

Beneficial Interest in Endowment Funds

The fair value of the beneficial interest in endowment funds is provided by CFWNC and CFHC. Due to inputs being unobservable, the instruments are categorized as Level 3.

The following table sets forth the estimated fair values for financial instruments:

<u>At December 31, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment investments:				
Cash and money market funds	\$ 57,918	\$	\$	\$ 57,918
Equity investments:				
Mutual funds - equity index	684,929			684,929
Mutual funds - bond index	351,690			351,690
Mutual funds - balanced	<u>30,760</u>			<u>30,760</u>
Total endowment investments	<u>1,125,297</u>			<u>1,125,297</u>
Beneficial interest in endowment funds			<u>140,358</u>	<u>140,358</u>
<u>Total fair value measurements</u>	<u>\$</u>	<u>\$</u>	<u>\$ 140,358</u>	<u>\$ 1,265,655</u>

Note 6 - Fair Value Measurements (continued)

<u>At December 31, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment investments:				
Cash and money market funds	\$ 143,550	\$	\$	\$ 143,550
Equity investments:				
Mutual funds - equity index	841,572			841,572
Mutual funds - bond index	329,549			329,549
Mutual funds - balanced	<u>30,309</u>			<u>30,309</u>
Total endowment investments	1,344,980			1,344,980
Beneficial interest in endowment funds			<u>156,526</u>	<u>156,526</u>
<u>Total fair value measurements</u>	<u>\$ 1,344,980</u>	<u>\$</u>	<u>\$ 156,526</u>	<u>\$ 1,501,506</u>

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

<u>Years Ended December 31</u>	<u>2022</u>	<u>2021</u>
Level 3 inputs, beginning of year	\$ 156,526	\$ 139,871
Contributions	8,241	
Interest and dividends	3,514	3,017
Investment fees	(1,008)	(1,307)
Net gains (losses) on beneficial interest in endowment funds	<u>(26,915)</u>	<u>14,945</u>
<u>Level 3 inputs, end of year</u>	<u>\$ 140,358</u>	<u>\$ 156,526</u>

Note 7 - Property and Equipment

A description of property and equipment is as follows:

<u>At December 31</u>	<u>2022</u>	<u>2021</u>
Land	\$ 2,109,230	\$ 2,109,230
Buildings and improvements	2,976,472	2,964,538
Equipment and furniture	122,337	122,337
Vehicles	<u>62,904</u>	<u>62,904</u>
	5,270,943	5,259,009
Less, accumulated depreciation	<u>(1,189,945)</u>	<u>(1,090,284)</u>
<u>Property and equipment</u>	<u>\$ 4,080,998</u>	<u>\$ 4,168,725</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was \$99,662 and \$117,272, respectively.

Note 8 - Leases

The Organization leases office space under non-cancellable operating lease agreements with remaining lease terms of one to three years. The discount rate for the operating leases is the Organization's incremental borrowing rate of 6.25%. The weighted average remaining lease term for all operating leases is 1.66 years as of December 31, 2022.

Some of the lease agreements include one or more options to renew, with renewal terms that can extend the lease term from one to three years. Only lease options that the Organization believes are reasonably certain to be exercised are included in the measurement of lease assets and liabilities.

The following is a schedule of future minimum payments lease payments under the operating lease agreements:

<u>Years Ending December 31</u>	<u>Payments</u>
2023	\$ 110,287
2024	62,067
2025	5,750
2026	
2027	
Total payments	<u>178,104</u>
Less: imputed interest	<u>(7,090)</u>
<u>Total operating lease liability</u>	<u>\$ 171,014</u>

Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term.

The following summarize the line items in the accompanying statements of functional expenses which include the components of lease costs:

<u>Year Ended December 31</u>	<u>2022</u>
Short-term leases, included in rent expense	\$ 59,194
Operating lease costs, included in rent expense	<u>49,912</u>
<u>Total lease costs</u>	<u>\$ 109,106</u>

Previous Guidance

Total lease expense under all non-cancellable leases for the year ended December 31, 2021, was \$56,785.

Note 9 - Rental Activities

The Organization leases a portion of its building to an unrelated party under a non-cancelable operating lease agreement that expires in May 2024. The building lease does not transfer ownership of the leased asset and does not provide an option for the lessee to purchase the asset. After the current term, the lessee has the option to renew the lease for up to three additional five-year terms.

At lease inception, the Organization determines whether an arrangement qualifies as a lease under ASC 842 (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration). The Organization only reassesses if the terms and conditions of the contract are changed. Future minimum payments to be received under this lease are as follows:

<u>Years Ending December 31</u>	
2023	\$ 40,176
2024	16,740
2025	
2026	
2027	
<u>Total future minimum payments</u>	<u>\$ 56,916</u>

Note 10 - In-kind Contributions

In-kind gifts are acknowledged for the furtherance of the various programs and mission of the Organization. Donated pro bono services consist of attorney services other donated professional services consist of videographers and keynote speakers at events. 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.

Note 10 - In-kind Contributions (continued)

In-kind contributions are summarized as follows:

<u>Year Ended December 31, 2022</u>			
	<u>Fair value</u>	<u>Usage in Program</u>	<u>Donor restriction</u>
Donated pro bono services	\$ 679,573	Program services	None
Donated advertising	13,156	Program services	None
Donated other professional services	8,300	Program services	None
Donated materials	7,694	Program services	None
Donated technology	<u>17,500</u>	Program services	None
In-kind contributions	<u>\$ 726,223</u>		
<u>Year Ended December 31, 2021</u>			
	<u>Fair value</u>	<u>Usage in Program</u>	<u>Donor restriction</u>
Donated pro bono services	\$ 727,035	Program services	None
Donated advertising	50,092	Program services	None
Donated other professional services	5,446	Program services	None
Donated materials	4,100	Program services	None
Other	<u>180</u>	Program services	None
In-kind contributions	<u>\$ 786,853</u>		

Fair valuation techniques - Pro bono services are valued using a standard rate of \$250 per service hour. Other donated services are valued at the fair value of the services, which is provided by the service provider. Supplies, materials, and other in-kind contributions are valued at the donor provided amount, price that would be paid to purchase a comparable item, or current sales price of the item as sold by the donating vendor. Advertising is valued at the price that would be paid to purchase similar advertising spots.

Note 11 - Retirement Plan

At the Board of Director's discretion, the Organization contributes to a 401(k) plan for all eligible employees. Employees are eligible for participation after six months of service. The contribution is based on an established percentage of the employees' annual compensation. For the years ended December 31, 2022 and 2021, the Organization's contribution totaled 6.5% of eligible compensation or \$395,004 and \$298,032, respectively.

Note 12 - Related Party Transactions

During the years ended December 31, 2022 and 2021, the Organization received contributions from members of the Board of Directors totaling \$103,917 and \$13,795, 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.

Open Tax Years

The Organization's Return of Organization Exempt From Income Tax (Form 990) for the years ended December 31, 2021, 2020, and 2019, are subject to examination by the IRS, generally for three years after they were filed.

Note 14 - Concentrations of Credit Risk

The Organization maintains its cash and equivalents with major banks and financial institutions. Generally, the amounts will exceed coverage limits insured by the Federal Deposit Insurance Corporation (FDIC) or be partially uninsured.

The Organization's endowment investments and beneficial interest in endowment funds are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the fair value of investments, it is at least reasonably possible that changes in the various risk factors could occur in the near term and materially affect the Organization's financial position.

Note 15 - Commitments and Contingencies

Government 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 or reimbursement to the grantor or third-party agencies. Management believes that refunds or reimbursements, should any be determined, would be immaterial. No provisions have been made in the accompanying financial statements for the repayment of any 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 volunteers; 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 16 - Subsequent Events

Management has evaluated subsequent events through July 13, 2023, 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 of
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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 13, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

To the Board of Directors
Pisgah Legal Services

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

CARTER, P.C.

Asheville, North Carolina
July 13, 2023

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 of
Pisgah Legal Services

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Pisgah Legal Services' compliance with the types of compliance requirements identified as subject to audit 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, 2022. Pisgah Legal Services' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

To the Board of Directors
Pisgah Legal Services

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain a reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Pisgah Legal Services' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Pisgah Legal Services' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Pisgah Legal Services' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Pisgah Legal Services' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Pisgah Legal Services' internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.

To the Board of Directors
Pisgah Legal Services

Report on Internal Control over Compliance (continued)

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

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

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

CARTER, P.C.

Asheville, North Carolina
July 13, 2023

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards Year Ended December 31, 2022

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Pass-through to Subrecipients</u>
FEDERAL AWARDS				
<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/Entitlement Grants	14.218	92000304 & 92100363	\$ 26,466	\$
Community Development Block Grants/Entitlement Grants -		92100184		
COVID-19 Eviction Prevention Project	14.218	& 92200143	<u>73,842</u>	<u>73,842</u>
Total CDBG - Entitlement Grants Cluster			<u>100,308</u>	<u>73,842</u>
 <u>U.S. Department of Justice</u>				
Office for Victims of Crime:				
Passed through N.C. Department of Public Safety -				
Governor's Crime Commission:				
Crime Victim Assistance:				
Buncombe - Mountain Violence Prevention Project 2020	16.575	PROJ014316	269,559	
Buncombe - Legal Services for Rural, Immigrant,				
and Underserved Communities in WNC 2019	16.575	PROJ013443	461,142	
Buncombe - Legal Services	16.575	PROJ015448	52,263	
Passed through Buncombe County, North Carolina:				
Family Justice Center Project	16.575	1901	139,319	
Passed through Safelight, Inc. d/b/a Mainstay, Inc.:				
Henderson County Emergency Legal Assistance	16.575	PROJ014146	<u>37,627</u>	
Total Crime Victim Assistance			959,910	
 Office of Violence Against Women:				
Legal Assistance for Victims	16.524		213,926	
Passed through Mediation Center:				
Justice Systems Response to Families	16.021		<u>24,996</u>	
Total U.S. Department of Justice			<u>1,198,832</u>	

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued)
Year Ended December 31, 2022

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Pass-through to Subrecipients</u>
FEDERAL AWARDS (continued)				
<u>U.S. Department of Health and Human Services</u>				
Administration for Community Living:				
Aging Cluster:				
Passed through Land of Sky Regional Council:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	20 - 22 AANCT3SS & 20/21 AANCT3SS	\$ 127,267	\$
COVID-19 - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	C23.15	28,122	
Passed through Isothermal Planning and Development Commission:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		21,867	
Passed through Henderson County, North Carolina:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		43,505	
Passed through Transylvania County, North Carolina:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		13,887	
Passed through Madison County, North Carolina:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		1,423	
Total Aging Cluster			<u>236,071</u>	

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued)
Year Ended December 31, 2022

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/Pass-through Grantor's Number	Expenditures	Pass-through to Subrecipients
FEDERAL AWARDS (continued)				
<u>U.S. Department of Health and Human Services (continued)</u>				
Administration for Children and Families:				
Passed through North Carolina Council for Women and Youth Involvement:				
Family Violence Prevention and Services	93.671		\$ 45,945	\$
COVID-19 - Family Violence Prevention and Services	93.671	56-1191115	99,850	
Total Family Violence Prevention and Services			145,795	
Passed through Impact Health:				
Medicaid Cluster:				
Medical Assistance Program (Medicaid; Title XIX)	93.778		358,490	
Total Medicaid Cluster			358,490	
Passed through Legal Aid of North Carolina, Inc.:				
Cooperative Agreement to Support Navigators in Federally-facilitated Exchanges	93.332		277,682	
Total U.S. Department of Health and Human Services			1,018,038	
<u>U.S. Department of the Treasury</u>				
Passed through the Office of State Budget and Management:				
NC Pandemic Recovery Office				
Coronavirus Relief Fund				
Passed through City of Asheville, North Carolina:				
Coronavirus State and Local Fiscal Recovery Funds	21.027		150,889	
Total Federal Awards			\$ 2,468,067	\$ 73,842

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued)
Year Ended December 31, 2022

Grantor/Pass-Through Grantor/Program Title	Federal AL Number	State/Pass-through Grantor's Number	Expenditures	Pass-through to Subrecipients
STATE AWARDS				
<u>North Carolina Department of Health and Human Services</u>				
Passed through Legal Aid of North Carolina, Inc:				
Ombudsman Program			\$ 453,045	\$
<u>North Carolina Housing Finance Agency</u>				
Passed through Legal Aid of North Carolina, Inc:				
North Carolina State Home Foreclosure Prevention Project			47,000	
<u>North Carolina State Bar</u>				
Passed through North Carolina State Bar Plan for Interest on				
Lawyers' Trust Accounts (NC IOLTA):				
Providing Legal Aid to Veterans			150,000	
Domestic Violence Victim Assistance Act		2019-10 & 02169	21,750	
Total State Awards			\$ 671,795	\$
OTHER AWARDS				
<u>North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts (NC IOLTA)</u>				
General Support		2022-03	\$ 96,000	\$
Volunteer Lawyers' Program		2022-17	91,000	
Community Redevelopment		2022-15	50,000	
Home Defense Project		2020-18	29,100	
Total Other Awards			\$ 266,100	\$

PISGAH LEGAL SERVICES

Schedule of Expenditures of Federal, State, and Other Awards (continued)
Year Ended December 31, 2022

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, 2022. 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 in the SEFSA are presented 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 elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PISGAH LEGAL SERVICES

Schedule of Findings and Questioned Costs
December 31, 2022

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 with each major federal program: Unmodified

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

Identification of major federal programs:
AL # 16.575 - Crime Victim Assistance
AL # 21.027 - Coronavirus State and Local Fiscal Recovery Funds

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, 2022

No findings were reported for the year ended December 31, 2021.

No findings were reported for the year ended December 31, 2020.