

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

(LSC RECIPIENT NO. 339060)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2012 AND 2011

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighborhood Legal Services Association
Pittsburgh, Pennsylvania

We have audited the accompanying statements of financial position of Neighborhood Legal Services Association (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

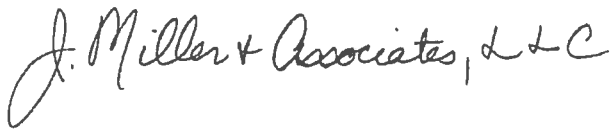
We conducted our audit in accordance with U.S. generally accepted auditing standards; Legal Services Corporation (LSC) "Audit Guide for Recipients and Auditors," as revised November 1997; LSC "Compliance Supplement for Audits of LSC Recipients" dated December 31, 1998; and the standards applicable to 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Legal Services Association as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012, on our consideration of Neighborhood Legal Services Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Neighborhood Legal Services Association

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the Office of Management and Budget Circular (OMB) A-133, Audits of States, Local Government and Non-Profit Organizations and funding source agreements, and is not a required part of the basic financial statements of Neighborhood Legal Services Association. The accompanying schedule of private attorney involvement expenditures related to Legal Services Corporation support and the schedule of support, revenue and expenses and changes in net assets for Legal Services Corporation Grants, and the schedule of support, revenue and expenses and changes in net assets by funding source are presented for purposes of additional analysis and are also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



J. MILLER & ASSOCIATES, LLC

Philadelphia, Pennsylvania
October 9, 2012

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
Cash	\$ 699,960	\$ 1,169,582
Client Escrow Funds	13,242	14,616
Accounts Receivable		
Legal Services Corporation	672,310	761,645
Pennsylvania Legal Aid Network	183,756	202,215
Other	35,295	178,473
Promises to Give	39,243	23,272
Prepaid Expenses	125,589	193,386
Property and Equipment	<u>772,231</u>	<u>923,464</u>
 Total Assets	 <u>\$ 2,541,626</u>	 <u>\$ 3,466,653</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 174,610	\$ 187,707
Client Trust Deposits	13,242	14,616
Other Liabilities	4,104	4,133
Mortgage Note Payable	<u>40,384</u>	<u>80,129</u>
 Total Liabilities	 232,340	 286,585
NET ASSETS		
Unrestricted	1,409,303	1,871,033
Temporarily Restricted		
Legal Services Corporation - grants	813,386	1,205,955
Legal Services Corporation - property	<u>75,315</u>	<u>103,080</u>
	888,701	1,309,035
All Other	<u>11,282</u>	-
Total Temporarily Restricted	<u>899,983</u>	<u>1,309,035</u>
 Total Net Assets	 <u>2,309,286</u>	 <u>3,180,068</u>
 Total Liabilities and Net Assets	 <u>\$ 2,541,626</u>	 <u>\$ 3,466,653</u>

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012					2011				
	Unrestricted	Temporarily Restricted			Total	Unrestricted	Temporarily Restricted			Total
		Legal Services Corporation	All Other	Total			Legal Services Corporation	All Other	Total	
SUPPORT AND REVENUE										
Grants and Contracts	\$ 2,674,901	\$ 1,565,552	\$ 11,282	\$ 1,576,834	\$ 4,251,735	\$ 3,149,049	\$ 1,894,482	\$ -	\$ 1,894,482	\$ 5,043,531
Contributions										
In-Kind	1,861,025	-	-	-	1,861,025	1,736,603	-	-	-	1,736,603
Other	245,272	-	-	-	245,272	385,350	-	-	-	385,350
Interest	2,494	232	-	232	2,726	4,549	252	-	252	4,801
Other Income	46,341	2,488	-	2,488	48,829	72,267	12,178	-	12,178	84,445
Net Assets Released from Restrictions	1,988,606	(1,988,606)	-	(1,988,606)	-	2,190,833	(2,028,742)	(162,091)	(2,190,833)	-
Total Support and Revenue	6,818,639	(420,334)	11,282	(409,052)	6,409,587	7,538,651	(121,830)	(162,091)	(283,921)	7,254,730
EXPENSE										
Program Services	6,078,324	-	-	-	6,078,324	6,117,864	-	-	-	6,117,864
Management and General	1,100,148	-	-	-	1,100,148	1,174,294	-	-	-	1,174,294
Fundraising	101,897	-	-	-	101,897	111,976	-	-	-	111,976
Total Expense	7,280,369	-	-	-	7,280,369	7,404,134	-	-	-	7,404,134
Change in Net Assets	(461,730)	(420,334)	11,282	(409,052)	(870,782)	134,517	(121,830)	(162,091)	(283,921)	(149,404)
Net Assets - Beginning of Year	1,871,033	1,309,035	-	1,309,035	3,180,068	1,736,516	1,430,865	162,091	1,592,956	3,329,472
NET ASSETS - END OF YEAR	\$ 1,409,303	\$ 888,701	\$ 11,282	\$ 899,983	\$ 2,309,286	\$ 1,871,033	\$ 1,309,035	\$ -	\$ 1,309,035	\$ 3,180,068

See accompanying Notes to Financial Statements.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
PERSONNEL EXPENSES								
Attorneys	\$ 1,558,036	\$ 457,310	\$ 5,573	\$ 2,020,919	\$ 1,532,955	\$ 476,694	\$ 8,462	\$ 2,018,111
Paralegals	239,854	-	-	239,854	256,368	-	-	256,368
Support Staff and Administration	671,622	199,824	11,601	883,047	646,291	199,871	-	846,162
Law Students	39,763	-	-	39,763	107,837	-	3,865	111,702
In-Kind Services	1,861,025	-	-	1,861,025	1,736,603	-	-	1,736,603
Employee Benefits	954,862	250,061	3,743	1,208,666	907,841	241,122	4,313	1,153,276
Total Personnel Expenses	5,325,162	907,195	20,917	6,253,274	5,187,895	917,687	16,640	6,122,222
OTHER EXPENSES								
Consultants and Contractors	85,508	43,780	64,486	193,774	208,122	81,454	68,585	358,161
Travel	63,522	16,101	176	79,799	87,856	24,417	373	112,646
Space Costs	133,627	34,997	149	168,773	123,493	32,800	220	156,513
Consumable Supplies	27,904	7,306	49	35,259	35,857	9,524	125	45,506
Equipment Rental & Maintenance	92,641	-	78	92,719	60,719	16,127	141	76,987
Other Expenses	212,689	65,923	13,741	292,353	269,732	64,608	23,253	357,593
Depreciation	137,271	24,846	2,301	164,418	144,190	27,677	2,639	174,506
Total Other Expenses	753,162	192,953	80,980	1,027,095	929,969	256,607	95,336	1,281,912
Total Expenses	\$ 6,078,324	\$ 1,100,148	\$ 101,897	\$ 7,280,369	\$ 6,117,864	\$ 1,174,294	\$ 111,976	\$ 7,404,134

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (870,782)	\$ (149,404)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	164,418	174,506
(Increase) Decrease in:		
Client Escrow Funds	1,374	2,137
Accounts Receivable	250,972	179,880
Promises to Give	(15,971)	(15,109)
Prepaid Expenses	67,797	(90,076)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(13,097)	75,476
Client Trust Deposits	(1,374)	(2,137)
Other Liabilities	(29)	(114)
Net Cash Provided (Used) by Operating Activities	<u>(416,692)</u>	<u>175,159</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(13,185)</u>	<u>(64,526)</u>
Net Cash Used by Investing Activities	<u>(13,185)</u>	<u>(64,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable and Capital Lease Obligations	<u>(39,745)</u>	<u>(36,094)</u>
Net Cash Used in Financing Activities	<u>(39,745)</u>	<u>(36,094)</u>
NET INCREASE/(DECREASE) IN CASH	(469,622)	74,539
Cash - Beginning of Year	<u>1,169,582</u>	<u>1,095,043</u>
CASH - END OF YEAR	<u>\$ 699,960</u>	<u>\$ 1,169,582</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	<u>\$ 4,470</u>	<u>\$ 8,389</u>

See accompanying Notes to Financial Statements.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Neighborhood Legal Services Association ("NLSA") is a nonprofit organization that provides civil legal representation for the poor and disadvantaged in Allegheny, Beaver, Butler and Lawrence counties. NLSA's central office is located in Pittsburgh, Pennsylvania. NLSA is part of a statewide network of legal service providers servicing all of Pennsylvania's 67 counties. With its reliance on discretionary government funding, the philanthropic community, and the volunteer services of attorneys and others, it represents its targeted clientele in matters such as protection from abuse, follow-up of governmental benefits including social security and food stamps, housing assistance, issues related to the youth and the aged, and other emerging civil matters

NLSA is funded on a year-to-year basis through a contract with Pennsylvania Legal Aid Network (PLAN). Funding for the contract is provided by the Commonwealth of Pennsylvania with Commonwealth and Federal Title XX funds, Pennsylvania Interest on Lawyers' Trust Account Program (IOLTA), and Access to Justice Act funds. Additional funding is obtained from Legal Services Corporation (LSC), a nonprofit corporation organized by the U.S. Congress to administer a nationwide legal assistance program.

Basis of Accounting

NLSA reports on the accrual basis of accounting and accordingly has reflected all significant receivables, payables, and other liabilities. The financial statements and notes also incorporate applicable provisions of the Legal Services Corporation, *Accounting Guide for LSC Recipients*, consistent with U.S. generally accepted accounting principles.

Financial Statement Presentation

NLSA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. NLSA has no permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, NLSA considers all highly liquid investments available for current use with an initial maturity of twelve months or less to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits or invested in United States Securities under a Repurchase Agreement through a sweep account.

Contributions

NLSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grant Support

NLSA recognizes grant funds from LSC and certain other funders when granted by the funder. Funds remaining unexpended at the end of an accounting period remain as temporarily restricted net assets.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grant Support (Continued)

In accordance with a general LSC policy, NLSA may use unspent funds in future periods as long as expenses incurred are in compliance with the specified terms of the LSC grant, as defined. LSC may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by NLSA with the terms of the grant. In addition, if NLSA terminates its LSC grant activities, all unexpended funds are to be returned to LSC.

Accounts Receivable

NLSA provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At June 30, 2012 and 2011, an allowance for doubtful accounts was not warranted.

Promises to Give

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 future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Promises to give at June 30, 2012 and 2011 of \$39,243 and \$23,272 are all due within one year.

Property and Equipment

Property and equipment acquired with LSC funds are considered to be owned by NLSA while used in the program or in future authorized programs. However, LSC retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets.

NLSA follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets. The estimated service lives of furniture, fixtures, and equipment range from five to seven years. Leasehold improvements are being depreciated over the lesser of the useful life of the assets or the remaining lease term.

In-Kind Contributions

In-kind contributions are recorded at fair value at the time of receipt. These contributions are recognized as both support and expenses in the statement of activities. Only those contributed services that create or enhance non-financial assets, require skills and are provided by such individuals possessing these skills and would typically need to be purchased, if not provided by donation, are so recognized in the financial statements.

In-kind contributed services totaled \$1,861,025 for the year ended June 30, 2012 and consisted of pro bono legal services provided attorneys and paralegals. The average rate used to determine the value of the pro bono legal services was \$190 and \$72.50 per hour for attorneys and paralegals, respectively, in 2012. For the year ended June 30, 2012, approximately 7,075 hours of pro bono legal services were provided by attorneys and approximately 7,142 hours of pro bono legal services were provided by paralegals.

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions (Continued)

In-kind contributed services totaled \$1,736,603 for the year ended June 30, 2011 and consisted of pro bono legal services provided attorneys and paralegals. The average rate used to determine the value of the pro bono legal services was \$190 and \$72 per hour for attorneys and paralegals, respectively, in 2011. For the year ended June 30, 2011, approximately 5,990.5 hours of pro bono legal services were provided by attorneys and approximately 8153.23 hours of pro bono legal services were provided by paralegals.

Allocation of Expenses

In some cases, common expenses are incurred which support the work performed under more than one grant. Such expenses are allocated between LSC and such other funding sources as agreed by these funding organizations or, in the absence of an agreement, on the basis which appears most reasonable to NLSA. The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Using employee time records, certain costs have been allocated among programs, management and general, and fundraising.

Income Taxes

NLSA is exempt from income tax as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code and accordingly, no provision for income taxes is included in these financial statements. NLSA adopted the income tax standard for uncertain tax positions on July 1, 2009. The implementation of the standard had no effect on the net assets of NLSA. Should the tax-exempt status be challenged in the future, NLSA's 2009, 2010 and 2011 tax years are open for examination by the IRS.

Subsequent Events

In preparing these financial statements, NLSA has evaluated events and transactions for potential recognition or disclosure through October 9, 2012, the date the financial statements were available to be issued.

NOTE 2 CLIENT ESCROW FUNDS

Cash advances received from clients are maintained in escrow accounts, and represent anticipated court costs that are the direct responsibility of the clients.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Buildings and Improvements	\$ 1,209,905	\$ 1,209,905
Furniture and Equipment	890,016	906,801
Total	<u>2,099,921</u>	<u>2,116,706</u>
Less: Accumulated Depreciation	<u>(1,327,690)</u>	<u>(1,193,242)</u>
Total Property and Equipment	<u>\$ 772,231</u>	<u>\$ 923,464</u>

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 LINE OF CREDIT

NLSA has a \$350,000 line of credit agreement with a bank. The line is secured by a secondary position on a building and significantly all of NLSA's assets. Interest is payable at the Bank's Prime Rate plus 1%. There was no balance outstanding on the line of credit as of June 30, 2012 and 2011. The line renews annually in March.

NOTE 5 MORTGAGE PAYABLE

Mortgage payable consists of the following as of June 30, 2012 and 2011:

	2012	2011
Mortgage Note secured by a building and requires monthly payments of \$3,707, including interest at 7.7% through June 2013	\$ 40,384	\$ 80,129
Less Current Maturities	(40,384)	(39,745)
Total Mortgage Payable, less Current Maturities	\$ -	\$ 40,384

Interest expense was \$4,347 and \$8,389 for the years ended June 30, 2012 and 2011, respectively.

The remaining mortgage balance is all due within the next year.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Operating Leases

NLSA presently leases office facilities at various locations in the counties in serves. The leases provide for annual fixed rental payments, plus certain real estate and utility expenses. Certain leases extend for a period longer than one year, however, certain of these leases are cancelable without penalty in the event NLSA is unable to secure sufficient funding to finance its programs. Lease expense for the years ended June 30, 2012 and 2011 were \$59,643 and \$59,333, respectively. As of June 30, 2012, future minimum lease payments under non-cancellable leases are as follows:

Year Ending June 30,	Amount
2013	\$ 34,414
2014	14,932
2015	1,079
Total	\$ 50,425

Private Attorney Involvement

As a recipient of LSC funding, NLSA is required to devote an amount of LSC funds equal to at least 12.5% of the basic field award for the involvement of private attorneys in the delivery of legal assistance to eligible clients. NLSA utilizes the organized pro bono method to meet the Private Attorney Involvement condition of their grant. For the year ended June 30, 2012, NLSA was able to document \$257,224 in of expenses relating to this requirement. See page 17.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

Grants received are subject to audit and adjustment by grantor agencies, principally Legal Services Corporation and Pennsylvania Legal Aid Network. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although NLSA expects such amounts, if any, to be immaterial.

NOTE 7 RETIREMENT PLANS

NLSA has a noncontributory 403(b) covering all permanent employees. Employees may elect to contribute a portion of their salary on a tax-deferred basis (up to statutory limits) into the plan.

NLSA also maintains a separate defined contribution tax-deferred annuity plan available to eligible employees. Employer contributions to the plan totaled \$48,849 and \$50,623 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 NET ASSETS

At June 30, 2012 and 2011, net assets consist of the following:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
Board Designated		
Operating Reserve	\$ 375,000	\$ 375,000
Building Reserve	247,500	247,500
Property and Equipment	656,532	740,255
Undesignated	130,271	508,278
	<u>\$ 1,409,303</u>	<u>\$ 1,871,033</u>
Temporarily Restricted Net Assets:		
Restricted as to Purpose:		
Legal Services Corporation	\$ 30,610	\$ 262,734
Legal Services Corporation - Property	75,315	103,080
Legal Services Corporation - TIG	-	25,980
University of Pittsburgh Medical Center	11,282	-
Total Purpose Restrictions	<u>117,207</u>	<u>391,794</u>
Restricted as to Time:		
Legal Services Corporation	782,776	917,241
Total Time Restrictions	<u>782,776</u>	<u>917,241</u>
Total Temporarily Restricted	<u>\$ 899,983</u>	<u>\$ 1,309,035</u>

LSC allows for a carryover of funds equal to or less than 10% of the grant funds for the year. The LSC net assets restricted as to purpose as of June 30, 2012 of \$30,610 does not exceed the allowable amount of carryover of funds.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 8 NET ASSETS (CONTINUED)

Expenditure of Excess Funds

As of June 30, 2011, NLSA requested, and was granted, a waiver of \$78,043 due to an excess fund balance (requirement of no more than 10% carryover of funds requirement (45 CFR §1628.4(d)). For the year ended June 30, 2012, NLSA expended the excess funds. The expenditure is detailed on pages 16-17.

NOTE 9 CONCENTRATIONS AND CONTINGENCIES

PLAN and LSC funding is dependent on the budgeting processes of the Commonwealth of Pennsylvania and the federal government. The LSC and PLAN grants were approximately 24% and 37%, respectively, of total revenue and support (excluding in-kind contributions) for the year ended June 30, 2012 and 36% and 50%, respectively, of total revenue and support (excluding in-kind contributions) for the year ended June 30, 2011.

A significant amount of funding is received for continued operations of NLSA from PLAN and LSC. Grants received are subject to audit and adjustment by grantor agencies, principally LSC and PLAN. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time, although NLSA expects such amounts, if any, to be immaterial.

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>Legal Services Corporation</u>		
Basic Field Grant	09.339060	\$ 1,934,861
TIG	09.339060	25,980
Total Legal Services Corporation		1,960,841
<u>U.S. Department of Health and Human Services</u>		
Pass-through Pennsylvania Legal Aid Network Title XX Social Services Block Grant	93.667	554,795
Pass-through Commonwealth of Pennsylvania Department of Health Beaver County Children and Youth Services	93.658	1,955
Pass-through Pennsylvania Department of Aging Special Program for the Aging Title III, Part B	93.044	99,500
Pass-through Pennsylvania Department of Community and Economic Development:		
Allegheny County Community Services Block Grant	93.569	40,000
Beaver County Community Services Block Grant	93.569	7,556
Total CFDA 93.569		47,556
Total U.S. Department of Health and Human Services		703,806
<u>U.S. Congress</u>		
NeighborWorks America:		
Pass-through Pennsylvania Housing Finance Agency Pass-through Pennsylvania Legal Aid Network National Foreclosure Mitigation Counseling Program	21.000	9,626
Total U.S. Congress		9,626
<u>U.S. Department of Housing and Urban Development</u>		
Pass-through City of Pennsylvania Legal Aid Network Homelessness Prevention and Rapid Recovery Program	14.257	32,365
Pass-through City of Pittsburgh Homelessness Prevention and Rapid Recovery Program	14.257	8,178
Pass-through Pennsylvania Department of Community and Economic Development		
Beaver County:		
Homelessness Prevention and Rapid Recovery Program	14.257	3,583
Total CFDA 14.257		44,126
Total U.S. Department of Housing and Urban Development		44,126
Total Federal Expenditures		\$ 2,718,399

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

NOTE 1 GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards presents activities in all of the federal awards programs of Neighborhood Legal Services Association. All financial assistance received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, is included in the schedule.

NOTE 2 BASIS OF ACCOUNTING, EXPENDITURES

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to funding agencies because those reports may be submitted on either a cash or modified accrual basis of accounting.

NOTE 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures are reported on the statement of functional expenditures as program costs. The expenditures reported in the basic financial statements may differ from the expenditures reported on the schedule of expenditures of federal awards due to program expenditures exceeding grant or contract budget limitations, which are not included as federal financial assistance.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT EXPENDITURES
RELATED TO LSC SUPPORT
YEAR ENDED JUNE 30, 2012

Private Attorney Involvement Requirements

Recipient #339060	\$ 1,700,017	
Private Attorney Involvement Requirement		\$ 212,502

Actual Private Attorney Involvement Expenses

Salaries:		
Attorneys	\$ 44,756	
Other Staff	124,144	
Total Salaries	168,900	
Fringe Benefits	46,147	
Other Non-Personnel Costs	42,177	
Total Private Attorney Involvement Expenses		257,224
Excess of Private Attorney Involvement Expenses Over Requirement		\$ 44,722

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
FOR LEGAL SERVICES CORPORATION GRANTS
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	General	PAI	Excess Fund Balance	Technology Initiative Grants	Sub-Total	Property	2012 Total	2011 Total
SUPPORT AND REVENUE								
Grants and Contracts	\$ 1,308,328	\$ 257,224	\$ -	\$ -	\$ 1,565,552	\$ -	\$ 1,565,552	\$ 1,894,482
In-Kind Contributions	-	-	-	-	-	-	-	-
Other Contributions	-	-	-	-	-	-	-	-
Interest Income	232	-	-	-	232	-	232	252
Other Income	2,488	-	-	-	2,488	-	2,488	12,178
Total Support and Revenue	1,311,048	257,224	-	-	1,568,272	-	1,568,272	1,906,912
SALARIES								
Attorneys	624,997	44,756	30,496	-	700,249	-	700,249	630,194
Contributed Services	-	-	-	-	-	-	-	-
Paralegal	64,428	36,651	3,143	-	104,222	-	104,222	122,601
Support Staff	267,814	87,493	13,066	12,795	381,168	-	381,168	343,276
Law Students	13,702	-	669	-	14,371	-	14,371	42,488
Total Salaries	970,941	168,900	47,374	12,795	1,200,010	-	1,200,010	1,138,559
FRINGE BENEFITS								
Payroll Taxes	72,611	12,921	3,543	-	89,075	-	89,075	90,989
Unemployment Compensation	11,227	1,274	548	-	13,049	-	13,049	14,842
Worker's Compensation	1,766	202	86	-	2,054	-	2,054	3,018
Health and Dental Insurance	258,783	29,847	12,626	-	301,256	-	301,256	278,395
Life, Accident, and Disability	16,556	1,903	808	-	19,267	-	19,267	18,596
Retirement	16,713	-	815	-	17,528	-	17,528	18,790
Total Fringe Benefits	377,656	46,147	18,426	-	442,229	-	442,229	424,630
CONSULTANTS AND CONTRACTORS								
Consultants	36,521	6,207	1,782	-	44,510	-	44,510	125,114
Auditing	7,036	770	343	-	8,149	-	8,149	8,760
Total Consultants and Contractors	43,557	6,977	2,125	-	52,659	-	52,659	133,874
TRAVEL								
Employee Travel - Local	12,291	1,389	600	-	14,280	-	14,280	15,263
Employee Travel - Out of Town	9,472	-	462	-	9,934	-	9,934	16,149
Travel - Training	1,769	-	86	-	1,855	-	1,855	3,737
Travel - Board	3,423	-	167	-	3,590	-	3,590	4,379
Total Travel	26,955	1,389	1,315	-	29,659	-	29,659	39,528

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
FOR LEGAL SERVICES CORPORATION GRANTS (CONTINUED)
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	General	PAI	Excess Fund Balance	Technology Initiative Grants	Sub- Total	Property	2012 Total	2011 Total
SPACE COSTS								
Rent	14,482	18,831	707	-	34,020	-	34,020	21,665
Utilities	11,598	1,270	566	-	13,434	-	13,434	13,890
Maintenance Services	19,537	2,139	953	-	22,629	-	22,629	18,337
Other Space Costs	5,228	-	255	-	5,483	-	5,483	4,931
Total Space Costs	50,845	22,240	2,481	-	75,566	-	75,566	58,823
CONSUMABLE SUPPLIES								
Office Supplies	5,949	700	290	-	6,939	-	6,939	12,390
Minor Office Accessories	5,007	-	244	-	5,251	-	5,251	4,042
Janitorial Supplies	412	-	20	-	432	-	432	721
Total Consumable Supplies	11,368	700	554	-	12,622	-	12,622	17,153
EQUIPMENT RENTAL AND MAINTENANCE								
Equipment Leased	25,047	2,215	1,222	-	28,484	-	28,484	16,894
Repairs and Maintenance	10,238	1,124	499	-	11,861	-	11,861	14,963
Total Equipment Rental and Maintenance	35,285	3,339	1,721	-	40,345	-	40,345	31,857
OTHER EXPENSES								
Insurance and Bonding	11,488	1,261	560	-	13,309	-	13,309	14,383
Printing	3,849	916	188	-	4,953	-	4,953	16,705
Dues	-	-	-	-	-	-	-	-
Law Library	18,412	-	898	-	19,310	-	19,310	27,209
Telephone	27,987	3,219	1,365	-	32,571	-	32,571	31,902
Court Costs	8,111	855	396	-	9,362	-	9,362	15,696
Postage and Freight	9,906	1,116	483	-	11,505	-	11,505	9,189
Advertising	1,278	165	62	-	1,505	-	1,505	3,017
Other Costs	1,956	-	95	-	2,051	-	2,051	4,122
Interest Expense	-	-	-	-	-	-	-	-
Total Other Expenses	82,987	7,532	4,047	-	94,566	-	94,566	122,223
Depreciation and Amortization	-	-	-	-	-	40,950	40,950	62,095
Total Expenses	1,599,594	257,224	78,043	12,795	1,947,656	40,950	1,988,606	2,028,742
SUPPORT AND REVENUE (UNDER)								
OVER EXPENSES	(288,546)	-	(78,043)	(12,795)	(379,384)	(40,950)	(420,334)	(121,830)
OTHER CHANGES IN NET ASSETS								
Acquisition of Property	-	-	-	(13,185)	(13,185)	13,185	-	-
Net Assets, Beginning of Year	1,101,932	-	78,043	25,980	1,205,955	103,080	1,309,035	1,430,865
NET ASSETS, END OF YEAR	\$ 813,386	\$ -	\$ -	\$ -	\$ 813,386	\$ 75,315	\$ 888,701	\$ 1,309,035

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
BY FUNDING SOURCE
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Pennsylvania Legal Aid Network								
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	PHFA	Employment Project	DCED	Total
SUPPORT AND REVENUE									
Grants and Contracts	\$ 554,795	\$ 1,168,178	\$ 269,774	\$ 104,280	\$ 215,106	\$ 9,626	\$ 20,519	\$ 32,365	\$ 2,374,643
In-Kind Contributions	-	-	-	-	-	-	-	-	-
Other Contributions	-	-	-	-	-	-	-	-	-
Interest Income	-	617	-	-	398	-	-	-	1,015
Other Income	-	4,912	-	-	-	-	-	-	4,912
Total Support and Revenue	554,795	1,173,707	269,774	104,280	215,504	9,626	20,519	32,365	2,380,570
SALARIES									
Attorneys	211,283	456,756	104,238	41,113	86,398	4,155	5,457	11,706	921,106
Contributed Services	-	-	-	-	-	-	-	-	-
Paralegal	25,347	44,639	10,795	3,324	7,032	97	9	5,407	96,650
Support Staff	91,909	194,177	44,689	17,282	36,259	1,876	2,678	6,602	395,472
Law Students	4,702	9,935	2,286	884	1,855	104	284	-	20,050
Total Salaries	333,241	705,507	162,008	62,603	131,544	6,232	8,428	23,715	1,433,278
FRINGE BENEFITS									
Payroll Taxes	24,919	52,647	12,116	4,686	9,831	477	573	1,814	107,063
Unemployment Compensation	3,853	8,140	1,873	725	1,520	11	13	-	16,135
Worker's Compensation	606	1,281	295	114	239	67	85	-	2,687
Health and Dental Insurance	88,810	187,630	43,182	16,700	35,037	1,559	1,989	6,143	381,050
Life, Accident, and Disability	5,682	12,004	2,763	1,068	2,242	99	127	350	24,335
Retirement	5,736	12,118	2,789	1,079	2,263	92	117	343	24,537
Total Fringe Benefits	129,606	273,820	63,018	24,372	51,132	2,305	2,904	8,650	555,807
CONSULTANTS AND CONTRACTORS									
Consultants	12,534	26,480	6,094	2,357	4,945	-	414	-	52,824
Auditing	2,414	5,101	1,174	454	953	40	51	-	10,187
Total Consultants & Contractors	14,948	31,581	7,268	2,811	5,898	40	465	-	63,011
TRAVEL									
Employee Travel - Local	4,218	8,912	2,051	791	1,664	73	93	-	17,802
Employee Travel - Out of Town	3,251	6,867	1,581	611	1,282	50	64	-	13,706
Travel - Training	607	1,283	295	114	240	-	12	-	2,551
Travel - Board	1,175	2,482	571	221	463	18	23	-	4,953
Total Travel	9,251	19,544	4,498	1,737	3,649	141	192	-	39,012

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
BY FUNDING SOURCE (CONTINUED)
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Pennsylvania Legal Aid Network								Total
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	PHFA	Employment Project	DCED	
SPACE COSTS									
Rent	4,970	10,500	2,417	935	1,961	112	143	-	21,038
Utilities	3,980	8,409	1,935	748	1,570	66	85	-	16,793
Maintenance Services	6,705	14,165	3,260	1,261	2,645	112	143	-	28,291
Other Space Costs	1,794	3,790	872	337	708	-	-	-	7,501
Total Space Costs	17,449	36,864	8,484	3,281	6,884	290	371	-	73,623
CONSUMABLE SUPPLIES									
Office Supplies	2,041	4,313	993	384	805	37	47	-	8,620
Minor Office Accessories	1,718	3,630	835	323	678	27	-	-	7,211
Janitorial Supplies	141	299	69	27	56	2	-	-	594
Total Consumable Supplies	3,900	8,242	1,897	734	1,539	66	47	-	16,425
EQUIPMENT RENTAL AND MAINTENANCE									
Equipment Leased	8,686	18,375	4,224	1,633	-	-	-	-	32,918
Equipment Purchased	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	3,513	7,423	1,708	661	1,386	59	75	-	14,825
Total Equipment Rental and Maintenance	12,199	25,798	5,932	2,294	1,386	59	75	-	47,743
OTHER EXPENSES									
Insurance and Bonding	3,942	8,329	1,917	741	1,555	66	84	-	16,634
Printing	1,321	2,791	642	248	521	48	-	-	5,571
Dues	5,681	12,019	2,763	1,068	2,207	-	-	-	23,738
Law Library	6,319	13,350	3,072	1,188	2,493	101	-	-	26,523
Telephone	9,644	20,452	4,728	1,833	3,819	168	215	-	40,859
Court Costs	2,784	5,881	1,354	523	1,098	45	-	-	11,685
Postage and Freight	3,399	7,182	1,653	639	1,341	58	74	-	14,346
Advertising	438	926	213	82	173	7	-	-	1,839
Other Costs	673	1,421	327	126	265	-	-	-	2,812
Total Other Expenses	34,201	72,351	16,669	6,448	13,472	493	373	-	144,007
Depreciation and Amortization	-	-	-	-	-	-	-	-	-
Total Expenses	554,795	1,173,707	269,774	104,280	215,504	9,626	12,855	32,365	2,372,906
SUPPORT AND REVENUE (UNDER)									
OVER EXPENSES	-	-	-	-	-	-	7,664	-	7,664
Net Assets, Beginning of Year	-	-	-	-	-	-	-	-	-
Transfer to Unrestricted	-	-	-	-	-	-	(7,664)	-	(7,664)
NET ASSETS, END OF YEAR	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
BY FUNDING SOURCE (CONTINUED)
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	IOLTA Helpline	Legal Services Corporation	All Other	2012 Total	2011 Total
SUPPORT AND REVENUE					
Grants and Contracts	\$ 53,300	\$ 1,565,552	\$ 258,240	\$ 4,251,735	\$ 5,043,531
In-Kind Contributions	-	-	1,861,025	1,861,025	1,736,603
Other Contributions	-	-	245,272	245,272	385,350
Interest Income	-	232	1,479	2,726	4,801
Other Income	-	2,488	41,429	48,829	84,445
Total Support and Revenue	53,300	1,568,272	2,407,445	6,409,587	7,254,730
SALARIES					
Attorneys	33,534	700,249	366,030	2,020,919	2,018,111
Contributed Services	-	-	1,861,025	1,861,025	1,736,603
Paralegal	545	104,222	38,437	239,854	256,368
Support Staff	5,133	381,168	101,274	883,047	846,162
Law Students	387	14,371	4,955	39,763	111,702
Total Salaries	39,599	1,200,010	2,371,721	5,044,608	4,968,946
FRINGE BENEFITS					
Payroll Taxes	3,029	89,075	37,910	237,077	242,398
Unemployment Compensation	185	13,049	6,018	35,387	39,330
Worker's Compensation	65	2,054	801	5,607	7,938
Health and Dental Insurance	8,523	301,256	138,067	828,896	761,291
Life, Accident, and Disability	419	19,267	8,829	52,850	51,696
Retirement	367	17,528	6,417	48,849	50,623
Total Fringe Benefits	12,588	442,229	198,042	1,208,666	1,153,276
CONSULTANTS AND CONTRACTORS					
Consultants	-	44,510	75,053	172,387	331,983
Auditing	-	8,149	3,051	21,387	26,178
Total Consultants & Contractors	-	52,659	78,104	193,774	358,161
TRAVEL					
Employee Travel - Local	-	14,280	6,463	38,545	40,254
Employee Travel - Out of Town	-	9,934	2,947	26,587	47,954
Travel - Training	-	1,855	678	5,084	12,707
Travel - Board	-	3,590	1,040	9,583	11,731
Total Travel	-	29,659	11,128	79,799	112,646

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
BY FUNDING SOURCE (CONTINUED)
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	IOLTA Helpline	Legal Services Corporation	All Other	2012 Total	2011 Total
SPACE COSTS					
Rent	-	34,020	4,585	59,643	59,333
Utilities	-	13,434	5,032	35,259	37,137
Maintenance Services	-	22,629	8,471	59,391	46,863
Other Space Costs	-	5,483	1,496	14,480	13,180
Total Space Costs	-	75,566	19,584	168,773	156,513
CONSUMABLE SUPPLIES					
Office Supplies	-	6,939	3,892	19,451	33,750
Minor Office Accessories	-	5,251	2,145	14,607	9,860
Janitorial Supplies	-	432	175	1,201	1,896
Total Consumable Supplies	-	12,622	6,212	35,259	45,506
EQUIPMENT RENTAL AND MAINTENANCE					
Equipment Leased	-	28,484	110	61,512	38,108
Equipment Purchased	-	-	-	-	734
Repairs and Maintenance	-	11,861	4,521	31,207	38,145
Total Equipment Rental and Maintenance	-	40,345	4,631	92,719	76,987
OTHER EXPENSES					
Insurance and Bonding	-	13,309	5,075	35,018	37,318
Printing	-	4,953	14,916	25,440	53,709
Dues	-	-	318	24,056	24,755
Law Library	-	19,310	7,884	53,717	72,633
Telephone	1,113	32,571	14,852	89,395	81,974
Court Costs	-	9,362	2,696	23,743	37,919
Postage and Freight	-	11,505	5,133	30,984	28,899
Advertising	-	1,505	1,239	4,583	9,481
Other Costs	-	2,051	554	5,417	10,905
Total Other Expenses	1,113	94,566	52,667	292,353	357,593
Depreciation and Amortization	-	40,950	123,468	164,418	174,506
Total Expenses	53,300	1,988,606	2,865,557	7,280,369	7,404,134
SUPPORT AND REVENUE (UNDER)					
OVER EXPENSES	-	(420,334)	(458,112)	(870,782)	(149,404)
Net Assets, Beginning of Year	-	1,309,035	1,871,033	3,180,068	3,329,472
Transfer to Unrestricted	-	-	7,664	-	-
NET ASSETS, END OF YEAR	\$ -	\$ 888,701	\$ 1,420,585	\$ 2,309,286	\$ 3,180,068



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Neighborhood Legal Services Association
Pittsburgh, Pennsylvania

We have audited the financial statements of Neighborhood Legal Services Association as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards; Legal Services Corporation (LSC) "Audit Guide for Recipients and Auditors," as revised November 1997; LSC "Compliance Supplement for Audits of LSC Recipients" dated December 31, 1998; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Neighborhood Legal Services Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Neighborhood Legal Services Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Legal Services Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Legal Services Association's internal control over financial reporting.

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 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. .

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

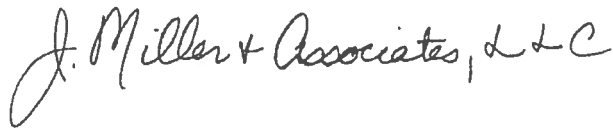
Board of Directors
Neighborhood Legal Services Association

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Legal Services Association's financial statements are free of 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*.

We noted certain matters that we reported to management of Neighborhood Legal Services Association in a separate letter dated October 9, 2012.

This report is intended solely for the information and use of the management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



J. MILLER & ASSOCIATES, LLC

Philadelphia, Pennsylvania
October 9, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors
Neighborhood Legal Services Association
Pittsburgh, Pennsylvania

Compliance

We have audited Neighborhood Legal Services Association's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the LSC "*Compliance Supplement for Audits of LSC Recipients*" dated December 31, 1998, that could have a direct and material effect on each of Neighborhood Legal Service Association's major federal programs for the year ended June 30, 2012. Neighborhood Legal Services Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Neighborhood Legal Services Association's management. Our responsibility is to express an opinion on Neighborhood Legal Services Association's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Neighborhood Legal Services Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Neighborhood Legal Services Association's compliance with those requirements.

In our opinion, Neighborhood Legal Services Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

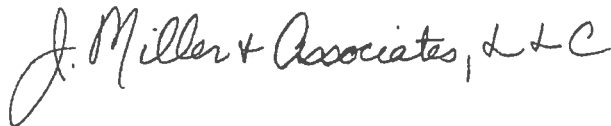
Internal Control Over Compliance

Management of Neighborhood Legal Services Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Neighborhood Legal Services Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Neighborhood Legal Services Association's internal control over compliance.

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

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



J. MILLER & ASSOCIATES, LLC

Philadelphia, Pennsylvania
October 9, 2012

**NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiencies identified?	No
Type of auditor’s report issued on compliance for major programs.	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

CFDA Number Name of Federal Program or Cluster

09.339060	Legal Services Corporation
93.667	Title XX Social Services Block Grant

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

None

Neighborhood Legal Services Association

Revenue 2012-2013

With Percentage Comparison to Budget

	PROJECTED REVENUE 2012-2013	ACTUAL REVENUE THRU 9/12	ACTUAL REVENUE % OF BUDGET
1 LSC	1,487,274	391,386	26.32%
2 PLAN	823,867	78,468	9.52%
3 IOLTA	251,186	104,661	41.67%
4 DAP	104,650	0	0.00%
5 AJA	1,084,080	451,700	41.67%
6 Mortgage Foreclosure (DPW)	97,003		0.00%
7 MLK	5,000		0.00%
8 Area Aging Agency	99,500	21,875	21.98%
9 Allegheny County Bar Fund	3,000		0.00%
10 S.S.I. Equitable Payments	18,384	1,532	8.33%
11 WPA CED Fair Housing	2,300		0.00%
12 PA Bar Trust Fund (O&W)	3,600		0.00%
13 IOLTA Helpline	56,500	14,125	25.00%
14 Law Schools	27,000		0.00%
15 Clinics - ACBA	10,000		0.00%
16 CLE Trainings	749		0.00%
17 Beaver CSBG	22,500	1,554	6.91%
18 UPMC Medical Legal Collaborative	65,000	5,000	7.69%
19 Pittsburgh Foundation	2,000		0.00%
20 Forbes Fund	12,000		0.00%
21 Equal Justice Campaign	206,000		0.00%
22 ACBF Golf Outing	17,032		0.00%
23 Interest	3,000	174	5.80%
24 Property Rental	4,500	750	16.67%
25 Miscellaneous	9,627	14,077	146.22%
26 PNC Law & Social Work Partnership Program	0	20,000	
27 Senior Action Coalition (O&W)	0	3,038	
Total Revenue (no In-Kind)	4,415,752	1,108,340	25.10%

Lines 2,4 are currently one-two months behind payment by PLAN.
 Line 5 is paid quarterly in varying amounts of total grant.
 Line 6 has not been invoiced by us yet. Should start getting payments soon.
 Line 10 comes in varying amounts through-out year.
 Line 18 currently working on grant.
 Line 21 funds start coming in October-November.
 Line 22 should receive by January.
 Line 26-27 have not been added to budget yet.

NLSA also projects the following major revenue additions/reductions:

AJA reduction of \$24,540 (tentative amount)
 IOLTA Class Action Residual new funding \$142,713 (tentative amount)
 Line 26-27 additions (money has been received) +23,038
Net change +141,211

Neighborhood Legal Services Association

Expense 2012-2013

With Percentage Comparison to Budget

		PROJECTED EXPENSE 2012-2013	ACTUAL EXPENSE THRU 9/12	ACTUAL EXPENSE % OF BUDGET	
1	SALARY - ATTORNEY	1,817,403	454,626	25.02%	
2	SALARY - PARALEGAL	236,798	60,100	25.38%	
3	SALARY - SUPPORT STAFF	782,424	207,483	26.52%	
4	SALARY - LAW STUDENT	53,418	13,948	26.11%	2,890,043 salary subtotal
5	MEDICARE/FICA	216,727	55,546	25.63%	
6	PAYROLL TAXES	45,032	1,954	4.34%	
7	FRINGE BENEFITS	847,317	261,879	30.91%	
8	RETIREMENT	49,745	0	0.00%	1,158,821 benefits subtotal
9	CONTRACTED SERVICES	172,381	35,086	20.35%	
10	AUDIT	21,000	0	0.00%	
11	TRAVEL - (local, out town, board, training)	84,000	12,767	15.20%	
12	SPACE COSTS (rent, utilities, bld. mtc., other)	172,116	42,176	24.50%	
13	SUPPLIES (office, minor F&E, janitorial)	39,765	5,735	14.42%	
14	FURNITURE & EQUIPMENT	8,000	0	0.00%	
15	EQUIPMENT LEASE	62,000	14,935	24.09%	
16	REPAIRS/MAINTENANCE	29,408	13,330	45.33%	
17	INSURANCE	37,000	14,422	38.98%	
18	PRINTING	30,000	833	2.78%	
19	DUES	24,700	16,377	66.30%	
20	ADVERTISING	5,000	105	2.10%	
21	LAW LIBRARY UPKEEP	45,000	7,500	16.67%	
22	SUBSCRIPTIONS	12,103	3,893	32.17%	
23	TELEPHONE	116,000	24,339	20.98%	
24	POSTAGE	31,500	187	0.59%	
25	COURT COSTS	25,000	6,469	25.88%	
26	MISCELLANEOUS	6,000	820	13.67%	
	Total Expenses (no In-Kind)	4,969,837	1,254,510	25.24%	

Line 6 will reconcile this to see if adjustment is needed.

Line 8 expense does not come until February/March if we keep in budget.

Line 10 is not billed until June usually.

Line 11 local and out town are paid one-month after actual expense.

Line 13,21, 22,26 comes in varying amounts through-out year.

Line 16,17,19 is invoiced in advance by most.

Line 18,20 usually is used Nov-Dec and April-June.

Line 24 is paid 2-3 times during year.

Neighborhood Legal Services Association
Projected Operating Gain/Deficit

Projected Revenue 2012-2013	\$4,415,752
Projected Expense 2012-2013	<u>(\$4,969,837)</u>
Projected 2012-2013 Operating Gain/(Loss)	(\$554,085)
Cash Fund Balance as of 6/30/12	<u>\$794,663</u>
Projected Cash Fund Balance 6/30/13	\$240,578

All figures listed above EXCLUDE In-Kind and have not been adjusted since September 2012 Board Meeting.

Neighborhood Legal Services Association
Projected Operating Gain/Deficit
INCLUDING TENTATIVE PROJECTED REVENUE CHANGES

Projected Revenue 2012-2013	\$4,415,752
PROJECTED REVENUE CHANGES	\$141,211
Projected Expense 2012-2013	<u>(\$4,969,837)</u>
Projected 2012-2013 Operating Gain/(Loss)	(\$412,874)
Cash Fund Balance as of 6/30/12	<u>\$794,663</u>
Projected Cash Fund Balance 6/30/13 - Including tentative revenue changes.	\$381,789

