

**Neighborhood Legal Services
Association**

(LSC Recipient No. 339060)

Financial Statements and
Supplementary Information

Year Ended June 30, 2013
with Independent Auditor's Reports

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

YEAR ENDED JUNE 30, 2013

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NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

YEAR ENDED JUNE 30, 2013

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Independent Auditor's Report

The Board of Directors
Neighborhood Legal Services Association

Report on the Financial Statements

We have audited the accompanying financial statements of Neighborhood Legal Services Association (NLSA), which comprise the statement of financial position as of June 30, 2013, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NLSA as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 14 through 18 is presented for purposes of additional analysis and is not a required part of the financial statements of NLSA. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013 on our consideration of NLSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering NLSA's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
October 8, 2013

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

<u>Assets</u>	
Cash	\$ 801,807
Client escrow funds	11,523
Accounts receivable:	
Pennsylvania Legal Aid Network	213,968
Other	24,524
Promises to give	46,824
Prepaid expenses	87,510
Property and equipment	648,492
Total Assets	<u><u>\$ 1,834,648</u></u>
<u>Liabilities and Net Assets</u>	
Liabilities:	
Accounts payable and accrued expenses	\$ 146,994
Client trust deposits	11,523
Other liabilities	4,037
Total Liabilities	<u>162,554</u>
Net Assets:	
Unrestricted	1,378,326
Temporarily restricted:	
Legal Services Corporation	227,222
All other	66,546
Total temporarily restricted	<u>293,768</u>
Total Net Assets	<u>1,672,094</u>
Total Liabilities and Net Assets	<u><u>\$ 1,834,648</u></u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

	Temporarily Restricted				Total
	Unrestricted	Legal Services Corporation	All Other	Total	
Revenues and Other Support:					
Grants and contracts	\$2,628,032	\$1,539,148	\$ 165,787	\$1,704,935	\$4,332,967
Contributions:					
In-kind	1,332,756	-	-	-	1,332,756
Other	377,336	-	-	-	377,336
Interest income	1,095	-	-	-	1,095
Other income	27,352	6,894	-	6,894	34,246
Net assets released from restrictions	1,665,734	(1,555,211)	(110,523)	(1,665,734)	-
Total revenues and other support	6,032,305	(9,169)	55,264	46,095	6,078,400
Expenses:					
Program services	4,926,788	-	-	-	4,926,788
Management and general	962,321	-	-	-	962,321
Fundraising	174,173	-	-	-	174,173
Total expenses	6,063,282	-	-	-	6,063,282
Change in Net Assets	(30,977)	(9,169)	55,264	46,095	15,118
Net Assets:					
Beginning of year, restated	1,409,303	236,391	11,282	247,673	1,656,976
End of year	\$1,378,326	\$ 227,222	\$ 66,546	\$ 293,768	\$1,672,094

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total</u>
Personnel Expenses:				
Attorneys	\$ 1,378,419	\$ 406,298	\$ 4,646	\$ 1,789,363
Paralegals	239,416	-	-	239,416
Support staff and administration	544,439	177,485	59,732	781,656
Law students	45,498	-	-	45,498
In-kind services	1,332,756	-	-	1,332,756
Employee benefits	738,086	195,166	6,620	939,872
Total personnel expenses	<u>4,278,614</u>	<u>778,949</u>	<u>70,998</u>	<u>5,128,561</u>
Other Expenses:				
Consultants and contractors	84,864	46,671	76,955	208,490
Travel	48,714	8,922	2,119	59,755
Space costs	121,242	32,060	127	153,429
Consumable supplies	15,477	4,093	29	19,599
Equipment rental and maintenance	89,346	-	76	89,422
Other expenses	194,519	66,454	19,313	280,286
Depreciation	94,012	25,172	4,556	123,740
Total other expenses	<u>648,174</u>	<u>183,372</u>	<u>103,175</u>	<u>934,721</u>
Total expenses	<u>\$ 4,926,788</u>	<u>\$ 962,321</u>	<u>\$ 174,173</u>	<u>\$ 6,063,282</u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities:	
Change in net assets	\$ 15,118
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	123,740
(Increase) decrease in:	
Client escrow funds	1,719
Accounts receivable	559
Promises to give	(7,581)
Prepaid expenses	38,079
Increase (decrease) in:	
Accounts payable and accrued expenses	(27,616)
Client trust deposits	(1,719)
Other liabilities	(67)
Net cash and cash equivalents provided by operating activities	<u>142,232</u>
Cash Flows From Financing Activities:	
Payments on note payable	<u>(40,385)</u>
Net cash and cash equivalents used in financing activities	<u>(40,385)</u>
Net Increase in Cash and Cash Equivalents	101,847
Cash and Cash Equivalents:	
Beginning of year	<u>699,960</u>
End of year	<u>\$ 801,807</u>
Supplemental Cash Flow Information:	
Interest paid	<u>\$ 4,545</u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

1. ORGANIZATION

Reporting Entity

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 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), formerly Pennsylvania Legal Services. Funding for the contract is provided by the Commonwealth of Pennsylvania (Commonwealth) with Commonwealth and Federal Title XX funds, Pennsylvania Interest on Lawyers' Trust Account Program (IOLTA), and Access to Justice Act (AJA) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

NLSA reports on the accrual basis of accounting and, accordingly, has reflected all significant receivables, payables, and other liabilities as prescribed by accounting principles generally accepted in the United States of America (GAAP). The financial statements and notes also incorporate applicable provisions of LSC's "*Accounting Guide for LSC Recipients*," consistent with accounting principles generally accepted in the United States of America.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of NLSA and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of NLSA and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by NLSA. NLSA currently does not have any permanently restricted net assets.

Cash and Cash Equivalents

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

NLSA maintains a separate interest-bearing checking account for funding received from IOLTA through PLAN, as required by policy enacted by the PA IOLTA Board and effective November 1, 2010.

Accounts Receivable

Contracts and grants receivable, which include PLAN receivables, are for expenses incurred prior to the fiscal year-end for when funds have not yet been received from the funding agency. NLSA provides an allowance for bad debts using the allowance method, which is based on management's 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, 2013, an allowance for doubtful accounts was not warranted.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

Contributions

NLSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of 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.

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.

Impairment

NLSA reviews its long-lived assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through future cash flows. If it is determined that an impairment loss has occurred, based on the expected cash flows, a loss is recognized in the statement of activities.

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 \$1,332,756 for the year ended June 30, 2013 and consisted of pro bono legal services provided by 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. For the year ended June 30, 2013, approximately

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

4,637 hours of pro bono legal services were provided by attorneys and approximately 6,232 hours of pro bono legal services were provided by paralegals.

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 net realizable value. The discounts on those amounts are computed using a risk-free interest rate adjusted for a risk premium (total rate of 20%). 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, 2013 of \$46,824 are all due within one year.

Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis on the statement of activities. Accordingly, certain costs have been allocated among programs and support services.

NLSA allocates expenses among PLAN, LSC, and other funding sources. The expense allocation among funding sources is made based on annualized budgetary revenue relationships, specific identification, and time expended on cases.

LSC Grant Support

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.

Income Taxes

NLSA is a not-for-profit corporation and is exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Service Code, as well as from Pennsylvania State corporate taxes. NLSA is not considered a private foundation for federal income tax purposes.

Further, NLSA annually files a Form 990, which is subject to examination by the Internal Revenue Service generally for three years after it is filed.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. 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.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2013:

Buildings and improvements	\$ 1,209,905
Furniture and equipment	<u>890,017</u>
Total	2,099,922
Less: accumulated depreciation	<u>(1,451,430)</u>
Total property and equipment	<u>\$ 648,492</u>

5. 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, 2013. The line renews annually in March.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

6. COMMITMENTS AND CONTINGENCIES

Operating Leases

NLSA presently leases office facilities at various locations in the counties it 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, all 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 year ended June 30, 2013 was \$55,099.

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, 2013, NLSA was able to document \$210,738 in expenses related to this requirement. See page 14 for Schedule of Private Attorney involvement Expenditures Related to Legal Services Corporation Support.

Other

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

7. NET ASSETS

At June 30, 2013, net assets consist of the following:

Unrestricted net assets:	
Board-designated	
Operating reserve	\$ 375,000
Building reserve	247,500
Property and equipment	648,492
Undesignated	107,334
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Total unrestricted net assets	\$ 1,378,326
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Temporarily restricted net assets:	
LSC - carryover	\$ 57,848
LSC - property and equipment	38,908
LSC - advance funding	130,466
University of Pittsburgh Medical Center	11,018
MLK	1,778
IOLTA mortgage foreclosure	53,750
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Total temporarily restricted net assets	\$ 293,768
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Total Net Assets	\$ 1,672,094
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LSC permits up to 10% of current funding to be carried over to the next fiscal year, without approval from LSC. A maximum of 25% of current funding may be carried over to the next fiscal year with approval from LSC. As of June 30, 2013, NLSA had an LSC carryover totaling \$57,848 (3.76% of fiscal year funding).

IOLTA and Access to Justice Act funding also permit a 10% carryover of current funding to the next fiscal year and require recipients to record the carryover funds as temporarily restricted net assets. The recipient may request a written waiver to carry over up to 25% of these funds. No written waiver was required for the year ended June 30, 2013.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

8. RETIREMENT PLANS

NLSA established a 403(b) tax-deferred annuity plan available to eligible employees. Per Memorandum of Agreement between NLSA and the union (which represent changes made to Collective Bargaining Agreement, effective January 1, 2013 through December 31, 2014), NLSA will not make matching retirement contributions on behalf of employees for the 2012 and 2013 calendar years. Also per this agreement, NLSA is required to contribute a certain cy pre donation on an equal basis among all such employees. This particular cy pre donation was not received during fiscal year ended June 30, 2013. Employees may make additional contributions to the plan on a voluntary basis. NLSA did not make any employer contributions to the plan during the fiscal year ended June 30, 2013.

9. CONCENTRATION OF CREDIT RISK

Financial Instruments

Financial instruments, which potentially subject NLSA to concentration of credit risk, consist principally of temporary cash investments. NLSA invests its temporary cash with several financial institutions. The cash balances are secured by the FDIC up to \$250,000 per financial institution. The balances, at times, may exceed federally insured limits.

Sources of Revenue

A significant amount of funding is received for continued operations of NLSA from PLAN and LSC. PLAN and LSC funding is dependent on the budgeting processes of the Commonwealth and the federal government. The LSC grant was approximately 32.43% of total revenue and other support for the year ended June 30, 2013. The PLAN grant (including IOLTA funding) was approximately 50.81% of total revenue and other support for the year ended June 30, 2013. Total revenue and other support used in these calculations do not include in-kind contributions.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

10. RESTATEMENT

During the year ended June 30, 2013, NLSA adopted a change in accounting policy regarding revenue recognition for certain grant funding (LSC in particular) from recognizing revenue when the funds are granted by the funder to recognizing revenue when the funds are received and related expenses are incurred by NLSA. Both accounting policies regarding LSC grant revenue recognition are deemed to be acceptable under accounting principles generally accepted in the United States of America; however, NLSA believes this newly adopted accounting policy better reflects the fiscal year activity of the LSC grant and such financial information is deemed more useful by management.

As a result of this accounting policy change, beginning of the year LSC temporarily restricted net assets and total net assets were decreased by \$652,310, which represents the amount that was recorded as LSC accounts receivable under the NLSA accounting policy during the year ended June 30, 2012.

Supplementary Information

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF PRIVATE ATTORNEY INVOLVEMENT EXPENDITURES RELATED TO LEGAL SERVICES CORPORATION SUPPORT

YEAR ENDED JUNE 30, 2013

Private Attorney Involvement Requirement

Recipient #339060	<u>\$ 1,546,042</u>
Private Attorney Involvement Requirement	<u>\$ 193,255</u>

Actual Private Attorney Involvement Expenses

Salaries:	
Attorneys	\$ 26,514
Other staff	<u>129,642</u>
Total salaries	156,156
Fringe benefits	34,753
Other non-personnel costs	<u>19,829</u>
Total Private Attorney Involvement Expenses	<u>210,738</u>

Excess of Private Attorney Involvement Expenses Under Requirement	<u><u>\$ 17,483</u></u>
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Note: To meet LSC compliance of 45 CFR 1614.3(e)(1)(i) when calculating wages and benefits for NLSA's attorneys and paralegals charged to PAI, NLSA calculated their hourly rates using scheduled work hours. Scheduled work hours are based upon an eight (8) hour work day five (5) days per week, or 40 hours, multiplied by the 52 weeks in a year for a total of 2,080 hours.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PRIMARY FUNDING SOURCES

YEAR ENDED JUNE 30, 2013

	Legal Services Corporation				Total	Pennsylvania Legal Aid Network	IOLTA Helpline	Other	Total
	General Program	PAI	Total						
Revenues and Other Support:									
Grants and contracts	\$ 1,328,410	\$ 210,738	\$ 1,539,148	\$ 2,411,025	\$ 56,500	\$ 326,294	\$ 4,332,967		
In-kind contributions	-	-	-	-	-	1,332,756	1,332,756		
Other contributions	-	-	-	-	-	377,336	377,336		
Interest income	-	-	-	733	-	362	1,095		
Other income	6,894	-	6,894	-	-	27,352	34,246		
Total revenues and other support	1,335,304	210,738	1,546,042	2,411,758	56,500	2,064,100	6,078,400		
Expenses:									
Salaries:									
Attorneys	523,924	26,514	550,438	939,536	38,568	260,821	1,789,363		
In-kind services	-	-	-	-	-	1,332,756	1,332,756		
Paralegal	63,140	37,207	100,347	117,140	975	20,954	239,416		
Support staff and administration	197,303	92,435	289,738	354,212	4,071	133,635	781,656		
Law students	15,274	-	15,274	26,864	-	3,360	45,498		
Total salaries	799,641	156,156	955,797	1,437,752	43,614	1,751,526	4,188,689		
Employee benefits:									
Payroll taxes	56,778	11,388	68,166	101,679	2,989	23,118	195,952		
Hospitalization and dental insurance	213,135	21,867	235,002	379,398	8,367	73,447	696,214		
Life, accident, and disability insurance	12,283	1,273	13,556	21,971	790	4,215	40,532		
Workers' compensation	2,194	225	2,419	3,880	140	735	7,174		
Total employee benefits	284,390	34,753	319,143	506,928	12,286	101,515	939,872		
Consultants and Contractors:									
Consultants	34,182	5,787	39,969	59,817	-	84,473	184,259		
Auditing	7,750	761	8,511	13,693	-	2,027	24,231		
Total consultants and contractors	41,932	6,548	48,480	73,510	-	86,500	208,490		
Travel:									
Employee travel - local	9,661	977	10,638	17,186	-	3,297	31,121		
Employee travel - out of town	6,143	-	6,143	10,979	-	3,087	20,209		
Employee travel - Board	1,397	-	1,397	2,488	-	366	4,251		
Travel - training	1,089	-	1,089	1,897	-	1,188	4,174		
Total travel	18,290	977	19,267	32,550	-	7,938	59,755		

(Continued)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PRIMARY FUNDING SOURCES

YEAR ENDED JUNE 30, 2013
(Continued)

	Legal Services Corporation					IOLTA Helpline	Other	Total
	General Program	PAI	Total	Pennsylvania Legal Aid Network				
Space costs:								
Rent and parking	17,439	1,730	19,169	31,243	-	4,687	55,099	
Utilities	10,209	1,008	11,217	18,201	-	2,668	32,086	
Maintenance and repairs	17,017	1,681	18,698	30,364	-	4,449	53,511	
Other space costs	4,280	-	4,280	7,513	-	940	12,733	
Total space costs	48,945	4,419	53,364	87,321	-	12,744	153,429	
Consumable supplies:								
Office and computer supplies	3,923	397	4,320	6,993	-	1,339	12,652	
Minor equipment purchases	1,804	-	1,804	3,249	-	472	5,525	
Janitorial supplies	467	-	467	833	-	122	1,422	
Total consumable supplies	6,194	397	6,591	11,075	-	1,933	19,599	
Equipment rental and maintenance:								
Repairs and maintenance	10,420	1,036	11,456	18,717	-	2,799	32,972	
Equipment rentals	22,354	-	22,354	34,096	-	-	56,450	
Total equipment rental and maintenance	32,774	1,036	33,810	52,813	-	2,799	89,422	
Other expenses:								
Insurance and bonding	11,153	1,118	12,271	20,028	-	3,290	35,589	
Dues and memberships	-	-	-	20,566	-	251	20,817	
Printing	895	509	1,404	1,715	-	13,078	16,197	
Advertising	452	97	549	817	-	1,712	3,078	
Law library and subscription	14,963	-	14,963	26,693	-	3,909	45,565	
Telephone	31,077	3,169	34,246	55,443	600	10,614	100,903	
Postage and freight	6,647	700	7,347	11,760	-	3,174	22,281	
Court costs	8,251	859	9,110	14,740	-	3,517	27,367	
Miscellaneous	2,462	-	2,462	4,297	-	1,730	8,489	
Total other expenses	75,900	6,452	82,352	156,059	600	41,275	280,286	
Depreciation	36,407	-	36,407	-	-	87,333	123,740	
Total expenses	1,344,473	210,738	1,555,211	2,358,008	56,500	2,093,563	6,063,282	
Change in Net Assets	(9,169)	-	(9,169)	53,750	-	(29,463)	15,118	
Net Assets:								
Beginning of year, restated	236,391	-	236,391	-	-	1,420,585	1,656,976	
End of year	\$ 227,222	\$ -	\$ 227,222	\$ 53,750	\$ -	\$ 1,391,122	\$ 1,672,094	
Acquisition of Property	-	-	-	-	-	-	-	

(Concluded)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PLAN FUNDING SOURCES

YEAR ENDED JUNE 30, 2013

	Pennsylvania Legal Aid Network					IOLTA	
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	Mortgage Foreclosure	Total
Revenues and Other Support:							
Contracts and grants	\$ 553,889	\$ 1,059,540	\$ 269,978	\$ 104,650	\$ 331,181	\$ 91,787	\$ 2,411,025
In-kind contributions	-	-	-	-	-	-	-
Other contributions	-	441	-	-	292	-	733
Interest income	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-
Total revenues and other support	553,889	1,059,981	269,978	104,650	331,473	91,787	2,411,758
Expenses:							
Salaries:							
Attorneys	219,330	416,918	108,196	40,383	135,871	18,838	939,536
Paralegal	27,247	56,998	12,134	5,950	14,431	380	117,140
Support staff and administration	82,742	157,761	40,298	15,662	50,344	7,405	354,212
Law students	6,406	12,213	3,120	1,228	3,897	-	26,864
Total salaries	335,725	643,890	163,748	63,223	204,543	26,623	1,437,752
Employee benefits:							
Payroll taxes	23,811	45,399	11,597	4,516	14,488	1,868	101,679
Hospitalization and dental insurance	89,382	170,420	43,531	17,553	54,383	4,129	379,398
Life, accident, and disability insurance	5,151	9,821	2,509	972	3,134	384	21,971
Workers' compensation	920	1,755	448	129	560	68	3,880
Total employee benefits	119,264	227,395	58,085	23,170	72,565	6,449	506,928
Consultants and contractors:							
Consultants	14,335	27,331	6,981	2,448	8,722	-	59,817
Auditing	3,250	6,197	1,583	456	1,977	230	13,693
Total consultants and contractors	17,585	33,528	8,564	2,904	10,699	230	73,510
Travel:							
Employee travel - local	4,051	7,725	1,973	677	2,465	295	17,186
Employee travel - out of town	2,576	4,912	1,255	478	1,567	191	10,979
Travel - Board	586	1,117	285	103	357	40	2,488
Travel - training	457	871	223	68	278	-	1,897
Total travel	7,670	14,625	3,736	1,326	4,667	526	32,550

(Continued)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF REVENUES AND OTHER SUPPORT, EXPENSES, AND CHANGES IN NET ASSETS BY PLAN FUNDING SOURCES

YEAR ENDED JUNE 30, 2013
(Continued)

	Pennsylvania Legal Aid Network					IOLTA	
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	Mortgage Foreclosure	Total
Space costs:							
Rent and parking	7,313	13,944	3,562	1,452	4,450	522	31,243
Utilities	4,281	8,163	2,085	763	2,605	304	18,201
Maintenance and repairs	7,136	13,606	3,475	1,298	4,342	507	30,364
Other space costs	1,795	3,423	874	329	1,092	-	7,513
Total space costs	<u>20,525</u>	<u>39,136</u>	<u>9,996</u>	<u>3,842</u>	<u>12,489</u>	<u>1,333</u>	<u>87,321</u>
Consumable supplies:							
Office and computer supplies	1,645	3,137	801	289	1,001	120	6,993
Minor equipment purchases	757	1,442	368	170	460	52	3,249
Janitorial supplies	196	374	96	34	119	14	833
Total consumable supplies	<u>2,598</u>	<u>4,953</u>	<u>1,265</u>	<u>493</u>	<u>1,580</u>	<u>186</u>	<u>11,075</u>
Equipment rental and maintenance:							
Repairs and maintenance	4,370	8,332	2,128	916	2,659	312	18,717
Equipment rentals	9,465	18,114	4,614	1,903	-	-	34,096
Total equipment rental and maintenance	<u>13,835</u>	<u>26,446</u>	<u>6,742</u>	<u>2,819</u>	<u>2,659</u>	<u>312</u>	<u>52,813</u>
Other expenses:							
Insurance and bonding	4,677	8,917	2,278	973	2,846	337	20,028
Dues and memberships	4,864	9,307	2,371	1,114	2,910	-	20,566
Printing	375	716	183	59	228	154	1,715
Advertising	190	362	92	29	115	29	817
Law library and subscriptions	6,275	11,963	3,056	1,149	3,818	432	26,693
Telephone	13,025	24,861	6,316	2,360	7,925	956	55,443
Postage and freight	2,788	5,315	1,358	392	1,696	211	11,760
Court costs	3,460	6,598	1,685	633	2,105	259	14,740
Miscellaneous	1,033	1,969	503	164	628	-	4,297
Total other expenses	<u>36,687</u>	<u>70,008</u>	<u>17,842</u>	<u>6,873</u>	<u>22,271</u>	<u>2,378</u>	<u>156,059</u>
Depreciation	-	-	-	-	-	-	-
Total expenses	<u>553,889</u>	<u>1,059,981</u>	<u>269,978</u>	<u>104,650</u>	<u>331,473</u>	<u>38,037</u>	<u>2,358,008</u>
Change in Net Assets							
Net Assets:							
Beginning of year	-	-	-	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,750</u>
Acquisition of Property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Concluded)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<u>Legal Services Corporation</u>		
Basic Field Grant	09.339060	\$1,548,317
Total Legal Services Corporation		1,548,317
<u>U.S. Department of Health and Human Services</u>		
Passed through Pennsylvania Legal Aid Network Title XX Social Services Block Grant	93.667	553,889
Passed through Pennsylvania Department of Aging Special Program for the Aging Title III, Part B Allegheny County	93.044	87,500
Beaver County	93.044	11,381
Total CFDA #93.044		98,881
Passed through Pennsylvania Department of Community and Economic Development: Beaver County Community Services Block Grant	93.569	30,449
Total U.S. Department of Health and Human Services		683,219
Total Expenditures of Federal Awards		\$2,231,536

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

1. GENERAL

The accompany schedule of expenditures of federal awards reflects the activity of all federal awards programs of Neighborhood Legal Services Association.

2. BASIS OF ACCOUNTING AND RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 2 to the financial statements.

**Neighborhood Legal Services
Association**

Independent Auditor's Reports in
Accordance with OMB Circular A-133

Year Ended June 30, 2013

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

The Board of Directors
Neighborhood Legal Services Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Neighborhood Legal Services Association (NLSA), which comprise the statement of financial position as of June 30, 2013, 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 October 8, 2013.

Internal Control over Financial Reporting

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

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

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

The Board of Directors
Neighborhood Legal Services Association
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NLSA'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*.

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.

Maher Duessel

Harrisburg, Pennsylvania
October 8, 2013

Independent Auditor's Report on Compliance for its Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

The Board of Directors
Neighborhood Legal Services Association

Report on Compliance for its Major Federal Program

We have audited Neighborhood Legal Services Association's (NLSA) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and *Legal Services Corporation (LSC) Audit Guide for Recipients and Auditors and Compliance Supplements* that could have a direct and material effect on NLSA's major federal program for the year ended June 30, 2013. NLSA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NLSA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *LSC Audit Guide for Recipients and Auditors*. 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 NLSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of NLSA's compliance.

The Board of Directors
Neighborhood Legal Services Association
Independent Auditor's Report on Compliance for
its Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

Opinion on Each Major Federal Program

In our opinion, NLSA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of NLSA 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 of compliance, we considered NLSA's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 NLSA's internal control over compliance.

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

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

The Board of Directors
Neighborhood Legal Services Association
Independent Auditor's Report on Compliance for
its Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maheer Duessel

Harrisburg, Pennsylvania
October 8, 2013

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

None

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

5. Type of auditor's report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

7. Major Programs:

CFDA Number(s)
09.339060

Name of Federal Program or Cluster
Legal Services Corporation

8. Dollar threshold used to distinguish between type A and type B programs:
\$300,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.