

**Neighborhood Legal Services Association
(LSC Recipient No. 339060)**

Financial Statements and
Supplementary Information

Years Ended June 30, 2017 and 2016
with Independent Auditor's Reports

MaherDuessel

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NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

YEARS ENDED JUNE 30, 2017 AND 2016

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YEARS ENDED JUNE 30, 2017 AND 2016

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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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NLSA as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 16 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 11, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with

The Board of Directors
Neighborhood Legal Services Association
Independent Auditor's Report
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Government Auditing Standards in considering NLSA's internal control over financial reporting and compliance.

Maier Duessel

Harrisburg, Pennsylvania
October 11, 2017

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED JUNE 30, 2017 AND 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 1,068,877	\$ 1,119,949
Client escrow funds	5,678	22,491
Accounts receivable:		
Pennsylvania Legal Aid Network	89,408	145,146
Other	184,828	114,526
Promises to give	2,058	3,162
Prepaid expenses	80,191	82,149
Property and equipment	548,745	601,828
Total Assets	<u><u>\$ 1,979,785</u></u>	<u><u>\$ 2,089,251</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 42,515	\$ 161,727
Client trust deposits	5,678	22,491
Other liabilities	3,834	4,014
Total Liabilities	<u>52,027</u>	<u>188,232</u>
Net Assets:		
Unrestricted	1,581,192	1,638,169
Temporarily restricted:		
Legal Services Corporation	262,859	253,135
All other	83,707	9,715
Total temporarily restricted	<u>346,566</u>	<u>262,850</u>
Total Net Assets	<u>1,927,758</u>	<u>1,901,019</u>
Total Liabilities and Net Assets	<u><u>\$ 1,979,785</u></u>	<u><u>\$ 2,089,251</u></u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Temporarily Restricted				Total
	Unrestricted	Legal Services Corporation	All Other	Total	
Revenues and Other Support:					
Grants and contracts	\$1,466,211	\$1,367,553	\$1,088,844	\$2,456,397	\$3,922,608
Contributions:					
In-kind	974,559	-	-	-	974,559
Event contributions	-	-	-	-	-
Other	226,137	-	-	-	226,137
Interest income	1,187	79	539	618	1,805
Event income	-	-	-	-	-
Other income	12,889	-	-	-	12,889
Net assets released from restrictions	2,373,299	(1,357,908)	(1,015,391)	(2,373,299)	-
Total revenues and other support	5,054,282	9,724	73,992	83,716	5,137,998
Expenses:					
Program services	4,698,418	-	-	-	4,698,418
Management and general	307,717	-	-	-	307,717
Fundraising	105,124	-	-	-	105,124
Total expenses	5,111,259	-	-	-	5,111,259
Change in Net Assets	(56,977)	9,724	73,992	83,716	26,739
Net Assets:					
Beginning of year	1,638,169	253,135	9,715	262,850	1,901,019
End of year	\$1,581,192	\$ 262,859	\$ 83,707	\$ 346,566	\$1,927,758

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Temporarily Restricted				Total
	Unrestricted	Legal Services Corporation	All Other	Total	
Revenues and Other Support:					
Grants and contracts	\$1,131,797	\$1,441,534	\$1,064,078	\$2,505,612	\$3,637,409
Contributions:					
In-kind	1,194,567	-	-	-	1,194,567
Event contributions	107,356	-	-	-	107,356
Other	299,021	-	-	-	299,021
Interest income	717	48	823	871	1,588
Event income	68,276	-	-	-	68,276
Other income	18,235	-	-	-	18,235
Net assets released from restrictions	2,528,887	(1,422,936)	(1,105,951)	(2,528,887)	-
Total revenues and other support	5,348,856	18,646	(41,050)	(22,404)	5,326,452
Expenses:					
Program services	4,763,553	-	-	-	4,763,553
Management and general	305,952	-	-	-	305,952
Fundraising	318,491	-	-	-	318,491
Total expenses	5,387,996	-	-	-	5,387,996
Change in Net Assets	(39,140)	18,646	(41,050)	(22,404)	(61,544)
Net Assets:					
Beginning of year	1,677,309	234,489	50,765	285,254	1,962,563
End of year	\$1,638,169	\$ 253,135	\$ 9,715	\$ 262,850	\$1,901,019

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fund- raising	Total
Personnel Expenses:				
Attorneys	\$ 1,567,678	\$ 119,001	\$ 1,144	\$ 1,687,823
Paralegals	57,937	-	-	57,937
Support staff and administration	652,275	49,608	1,722	703,605
Law students	47,530	-	-	47,530
In-kind services	974,559	-	-	974,559
Employee benefits	768,554	55,726	861	825,141
	4,068,533	224,335	3,727	4,296,595
Other Expenses:				
Event expense	-	-	-	-
Event in-kind	-	-	-	-
Consultants and contractors	123,143	21,412	92,442	236,997
Travel	38,819	4,583	4	43,406
Space costs	95,417	6,918	105	102,440
Consumable supplies	104,867	7,604	13	112,484
Equipment rental and maintenance	64,751	886	-	65,637
Other expenses	155,108	38,029	7,484	200,621
Depreciation	47,780	3,950	1,349	53,079
	629,885	83,382	101,397	814,664
Total Costs of Direct Benefits to Donors	-	-	-	-
	\$ 4,698,418	\$ 307,717	\$ 105,124	\$ 5,111,259
	\$ 4,698,418	\$ 307,717	\$ 105,124	\$ 5,111,259

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fund- raising	Total
Personnel Expenses:				
Attorneys	\$ 1,525,447	\$ 114,914	\$ 5,028	\$ 1,645,389
Paralegals	43,728	-	-	43,728
Support staff and administration	625,629	47,085	1,468	674,182
Law students	45,595	-	-	45,595
In-kind services	1,164,574	-	-	1,164,574
Employee benefits	737,216	53,306	2,060	792,582
Total personnel expenses	4,142,189	215,305	8,556	4,366,050
Other Expenses:				
Event expense	6,168	-	62,916	69,084
Event in-kind	-	-	29,993	29,993
Consultants and contractors	153,253	23,700	99,409	276,362
Travel	44,130	8,128	33	52,291
Space costs	103,341	7,472	266	111,079
Consumable supplies	31,914	2,308	37	34,259
Equipment rental and maintenance	66,762	4,827	-	71,589
Other expenses	167,623	40,121	13,674	221,418
Depreciation	48,173	4,091	3,857	56,121
Total other expenses	621,364	90,647	210,185	922,196
Total Costs of Direct Benefits to Donors	-	-	99,750	99,750
Total expenses	<u>\$ 4,763,553</u>	<u>\$ 305,952</u>	<u>\$ 318,491</u>	<u>\$ 5,387,996</u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 26,739	\$ (61,544)
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation	53,079	56,121
(Increase) decrease in:		
Client escrow funds	16,813	3,693
Accounts receivable	(14,564)	75,578
Promises to give	1,104	(650)
Prepaid expenses	1,958	(2,596)
Increase (decrease) in:		
Accounts payable and accrued expenses	(119,212)	(338,656)
Client trust deposits	(16,813)	(3,693)
Other liabilities	(176)	(56)
	<u>(51,072)</u>	<u>(271,803)</u>
Cash used in operating activities	(51,072)	(271,803)
Net Decrease in Cash and Cash Equivalents	(51,072)	(271,803)
Cash and Cash Equivalents:		
Beginning of year	<u>1,119,949</u>	<u>1,391,752</u>
End of year	<u>\$ 1,068,877</u>	<u>\$ 1,119,949</u>

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

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:

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 three 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, 2017 and 2016, an allowance for doubtful accounts was not warranted.

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 statements of activities as net assets released from restrictions.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 \$5,000. 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 statements 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 statements 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 included \$937,259 and \$1,164,574 for the years ended June 30, 2017 and 2016, respectively, 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 years ended June 30, 2017 and 2016, approximately 4,242 and 5,241 hours of pro bono legal services were provided by attorneys, respectively, and approximately 1,811 and 2,328 hours of pro bono legal services were provided by paralegals, respectively. For the year ended June 30, 2017, in-kind contributed services also included \$37,300 for services donated for the implementation of LegalServer database, paid by PLAN on behalf of NLSA.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

In addition, zero and \$29,993 of in-kind contributions were received for the years ended June 30, 2017 and 2016, respectively. These amounts represent goods and services donated for events held in June 2017 and June 2016.

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, 2017 and 2016 of \$2,058 and \$3,162, respectively, 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. NLSA annually files a Form 990.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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.

Pending Standards Update

Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers*," is effective for NLSA's financial statements for the year ending June 30, 2020 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for NLSA's financial statements for the year ending June 30, 2021. This amendment will require lessees to recognize assets and liabilities on the statements of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," is effective for NLSA's financial statements for the year ending June 30, 2019. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

Management has not yet determined the impact of these amendments on NLSA's financial statements.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,352,905	\$ 1,352,905
Furniture and equipment	<u>864,394</u>	<u>864,397</u>
Total	2,217,299	2,217,302
Less: accumulated depreciation	<u>(1,668,554)</u>	<u>(1,615,474)</u>
Total property and equipment, net	<u>\$ 548,745</u>	<u>\$ 601,828</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, 2017 and 2016. The line renews annually in March.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 years ended June 30, 2017 and 2016 was \$22,308 and \$22,433, respectively.

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 years ended June 30, 2017 and 2016, NLSA was able to document \$177,369 and \$193,109, respectively, in expenses related to this requirement. See page 16 for Schedule of Private Attorney Involvement Expenditures Related to Legal Services Corporation Support.

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 workday five (5) days per week, or 40 hours, multiplied by the 52 weeks in a year, for a total of 2,080 hours.

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

YEARS ENDED JUNE 30, 2017 AND 2016

7. Net Assets

At June 30, 2017 and 2016, net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Unrestricted net assets:		
Board-designated:		
Operating reserve	\$ 375,000	\$ 375,000
Building reserve	247,500	247,500
Property and equipment	548,745	601,824
Undesignated	<u>409,947</u>	<u>413,845</u>
Total unrestricted net assets	<u>\$ 1,581,192</u>	<u>\$ 1,638,169</u>
Temporarily restricted net assets:		
LSC - carryover	\$ 134,697	\$ 109,697
LSC - property and equipment	3,609	6,016
LSC - advance funding	113,064	113,933
LSC - TIG	11,489	23,489
MLK	2,500	2,500
IOLTA mortgage foreclosure	-	3,214
AJA	81,207	7
The Pittsburgh Foundation	<u>-</u>	<u>3,994</u>
Total temporarily restricted net assets	<u>\$ 346,566</u>	<u>\$ 262,850</u>
Total Net Assets	<u>\$ 1,927,758</u>	<u>\$ 1,901,019</u>

LSC basic field grant 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, 2017 and 2016, NLSA had an LSC carryover totaling \$134,697 and \$109,697, respectively (9.84% and 7.95% of fiscal year funding, respectively).

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 necessary for the years ended June 30, 2017 and 2016.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 did not make matching retirement contributions on behalf of employees for the 2013 and 2014 calendar years. A new Memorandum of Agreement between NLSA and the union was signed effective January 1, 2015 through December 31, 2015. Matching retirement contributions were not reinstated. A new Memorandum of Agreement between NLSA and the union was signed effective January 1, 2016 through December 31, 2018, whereby matching retirement contributions were reinstated for calendar years 2017 and 2018. Employees may make additional contributions to the plan on a voluntary basis. Pension expense totaled \$41,868 and zero for the years ended June 30, 2017 and 2016.

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 32.86% of total revenue and other support for the year ended June 30, 2017. The PLAN grant (including IOLTA funding) was approximately 47.87% of total revenue and other support for the year ended June 30, 2017. Total revenue and other support used in these calculations do not include in-kind contributions.

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

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

YEAR ENDED JUNE 30, 2017

Private Attorney Involvement Requirement

Recipient #339060	<u>\$ 1,367,553</u>	
Private Attorney Involvement Requirement		<u>\$ 170,944</u>

Actual Private Attorney Involvement Expenses

Salaries:		
Attorneys	14,042	
Other staff	<u>109,229</u>	
Total salaries	123,271	
Fringe benefits	38,823	
Other non-personnel costs	<u>15,275</u>	
Total Private Attorney Involvement Expenses		<u>177,369</u>
Excess of Private Attorney Involvement Expenses Over Requirement		<u><u>\$ 6,425</u></u>

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

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

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	Legal Services Corporation					Pennsylvania Legal Aid Network	IOLTA Helpline	Other	Totals	
	General Program	PAI	Total	LSC TIG	Total				2017	2016
Revenues and Other Support:										
Grants and contracts	\$ 1,190,183	\$ 177,370	\$ 1,367,553	\$ -	\$ 1,367,553	\$ 1,993,254	\$ 53,481	\$ 508,320	\$ 3,922,608	\$ 3,637,409
In-kind contributions	-	-	-	-	-	-	-	937,259	937,259	1,194,567
In-kind Legal Server	-	-	-	-	-	-	-	37,300	37,300	-
Other contributions	-	-	-	-	-	-	-	226,137	226,137	406,377
Interest income	79	-	79	-	79	687	-	1,039	1,805	1,588
Event income	-	-	-	-	-	-	-	-	-	68,276
Other income	-	-	-	-	-	-	-	12,889	12,889	18,235
Total revenues and other support	1,190,262	177,370	1,367,632	-	1,367,632	1,993,941	53,481	1,722,944	5,137,998	5,326,452
Expenses:										
Salaries:										
Attorneys	503,085	14,042	517,127	-	517,127	854,554	30,877	285,265	1,687,823	1,645,389
In-kind services - pro bono	-	-	-	-	-	-	-	937,259	937,259	1,164,574
In-kind Legal Server	-	-	-	-	-	-	-	37,300	37,300	-
Paralegal	2,709	36,362	39,071	-	39,071	10,504	-	8,362	57,937	43,728
Support staff and administration	211,456	72,867	284,323	-	284,323	330,322	4,470	84,490	703,605	674,182
Law students	16,483	-	16,483	-	16,483	29,428	-	1,619	47,530	45,595
Total salaries	733,733	123,271	857,004	-	857,004	1,224,808	35,347	1,354,295	3,471,454	3,573,468
Employee benefits:										
Payroll taxes	73,196	11,428	84,624	-	84,624	115,504	4,055	24,525	228,708	218,635
Retirement plan	16,307	-	16,307	-	16,307	22,824	745	1,992	41,868	-
Hospitalization and dental insurance	177,736	25,420	203,156	-	203,156	270,802	9,160	31,461	514,579	536,210
Life, accident, and disability insurance	11,039	1,660	12,699	-	12,699	17,530	598	2,773	33,600	32,324
Workers' compensation	2,248	315	2,563	-	2,563	3,384	114	325	6,386	5,413
Total employee benefits	280,526	38,823	319,349	-	319,349	430,044	14,672	61,076	825,141	792,582
Event expense	-	-	-	-	-	-	-	-	-	198,827
Consultants and contractors:										
Consultants	25,191	-	25,191	12,000	37,191	40,225	-	138,169	215,585	252,662
Auditing	7,546	1,058	8,604	-	8,604	11,646	-	1,162	21,412	23,700
Total consultants and contractors	32,737	1,058	33,795	12,000	45,795	51,871	-	139,331	236,997	276,362
Travel:										
Employee travel - local	4,469	652	5,121	-	5,121	6,895	235	953	13,204	16,031
Employee travel - out of town	6,069	-	6,069	-	6,069	8,975	969	596	16,609	24,644
Employee travel - Board	1,311	-	1,311	-	1,311	2,019	-	133	3,463	6,485
Travel - training	1,412	-	1,412	-	1,412	2,396	400	5,922	10,130	5,131
Total travel	13,261	652	13,913	-	13,913	20,285	1,604	7,604	43,406	52,291

(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, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

(Continued)

	Legal Services Corporation					Pennsylvania Legal Aid Network	IOLTA Helpline	Other	Totals	
	General Program	PAI	Total	LSC TIG	Total				2017	2016
Space costs:										
Rent and parking	8,007	1,102	9,109	-	9,109	12,387	-	812	22,308	22,433
Utilities	10,586	1,524	12,110	-	12,110	16,339	-	2,397	30,846	32,333
Maintenance and repairs	12,804	1,798	14,602	-	14,602	18,964	-	2,822	36,388	42,084
Other space costs	11,613	637	12,250	-	12,250	261	-	387	12,898	14,229
Total space costs	<u>43,010</u>	<u>5,061</u>	<u>48,071</u>	<u>-</u>	<u>48,071</u>	<u>47,951</u>	<u>-</u>	<u>6,418</u>	<u>102,440</u>	<u>111,079</u>
Consumable supplies:										
Office and computer supplies	3,418	505	3,923	-	3,923	5,303	182	821	10,229	12,408
Minor equipment purchases	1,892	2,006	3,898	-	3,898	6,000	-	91,446	101,344	20,821
Janitorial supplies	348	-	348	-	348	528	-	35	911	1,030
Total consumable supplies	<u>5,658</u>	<u>2,511</u>	<u>8,169</u>	<u>-</u>	<u>8,169</u>	<u>11,831</u>	<u>182</u>	<u>92,302</u>	<u>112,484</u>	<u>34,259</u>
Equipment rental and maintenance:										
Repairs and maintenance	-	647	647	-	647	5,242	-	7,215	13,104	10,376
Equipment rentals	-	-	-	-	-	18,436	-	34,097	52,533	61,213
Total equipment rental and maintenance	<u>-</u>	<u>647</u>	<u>647</u>	<u>-</u>	<u>647</u>	<u>23,678</u>	<u>-</u>	<u>41,312</u>	<u>65,637</u>	<u>71,589</u>
Other expenses:										
Insurance and bonding	11,205	1,631	12,836	-	12,836	17,319	588	2,268	33,011	33,641
Dues and memberships	-	-	-	-	-	16,172	-	3,235	19,407	19,433
Printing	2,199	-	2,199	-	2,199	3,567	383	15,388	21,537	15,998
Advertising	373	-	373	-	373	551	17	37	978	659
Law library and subscription	10,178	-	10,178	-	10,178	15,663	-	1,291	27,132	26,893
Telephone	20,192	2,945	23,137	-	23,137	30,971	411	5,107	59,626	83,724
Postage and freight	4,636	771	5,407	-	5,407	7,164	277	2,729	15,577	14,831
Court costs	7,082	-	7,082	-	7,082	10,840	-	696	18,618	25,340
Miscellaneous	1,342	-	1,342	-	1,342	3,240	-	153	4,735	899
Total other expenses	<u>57,207</u>	<u>5,347</u>	<u>62,554</u>	<u>-</u>	<u>62,554</u>	<u>105,487</u>	<u>1,676</u>	<u>30,904</u>	<u>200,621</u>	<u>221,418</u>
Depreciation	2,406	-	2,406	-	2,406	-	-	50,673	53,079	56,121
Total expenses	<u>1,168,538</u>	<u>177,370</u>	<u>1,345,908</u>	<u>12,000</u>	<u>1,357,908</u>	<u>1,915,955</u>	<u>53,481</u>	<u>1,783,915</u>	<u>5,111,259</u>	<u>5,387,996</u>
Change in Net Assets	<u>21,724</u>	<u>-</u>	<u>21,724</u>	<u>(12,000)</u>	<u>9,724</u>	<u>77,986</u>	<u>-</u>	<u>(60,971)</u>	<u>26,739</u>	<u>(61,544)</u>
Net Assets:										
Beginning of year	229,646	-	229,646	23,489	253,135	5,721	-	1,642,163	1,901,019	1,962,563
End of year	<u>\$ 251,370</u>	<u>\$ -</u>	<u>\$ 251,370</u>	<u>\$ 11,489</u>	<u>\$ 262,859</u>	<u>\$ 83,707</u>	<u>\$ -</u>	<u>\$ 1,581,192</u>	<u>\$ 1,927,758</u>	<u>\$ 1,901,019</u>
Acquisition of Property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(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, 2017

	Pennsylvania Legal Aid Network								
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	IOLTA Mortgage Foreclosure and Use of the Prior Year Net Assets	IOLTA Bank of America	MLK and Use of the Prior Year Net Assets	Total
Revenues and Other Support:									
Contracts and grants	\$ 450,982	\$ 1,013,035	\$ 237,639	\$ 104,703	\$ 84,025	\$ 44,413	\$ 27,061	\$ 31,396	\$ 1,993,254
Interest income	-	591	-	-	52	27	17	-	687
Total revenues and other support	450,982	1,013,626	237,639	104,703	84,077	44,440	27,078	31,396	1,993,941
Expenses:									
Salaries:									
Attorneys	201,165	406,776	106,614	43,381	36,111	22,906	14,862	22,739	854,554
Paralegal	2,783	3,717	2,958	710	336	-	-	-	10,504
Support staff and administration	77,253	163,367	40,034	19,303	15,305	9,070	5,990	-	330,322
Law students	6,022	12,735	3,121	1,357	1,193	-	-	5,000	29,428
Total salaries	287,223	586,595	152,727	64,751	52,945	31,976	20,852	27,739	1,224,808
Employee benefits:									
Payroll taxes	26,741	56,550	13,858	6,381	5,298	2,533	1,939	2,204	115,504
Retirement plan	5,958	12,599	3,087	-	1,180	-	-	-	22,824
Hospitalization and dental insurance	64,934	137,316	33,650	14,669	12,864	5,722	539	1,108	270,802
Life, accident, and disability insurance	4,033	8,528	2,090	944	799	505	286	345	17,530
Workers' compensation	821	1,737	426	183	163	-	54	-	3,384
Total employee benefits	102,487	216,730	53,111	22,177	20,304	8,760	2,818	3,657	430,044
Consultants and contractors:									
Consultants	9,203	19,462	4,769	4,968	1,823	-	-	-	40,225
Auditing	2,757	5,830	1,429	614	546	288	182	-	11,646
Total consultants and contractors	11,960	25,292	6,198	5,582	2,369	288	182	-	51,871
Travel:									
Employee travel - local	1,633	3,452	846	374	323	155	112	-	6,895
Employee travel - out of town	2,217	4,689	1,149	481	439	-	-	-	8,975
Travel - Board	479	1,013	248	102	95	53	29	-	2,019
Travel - training	516	1,091	267	239	102	95	86	-	2,396
Total travel	4,845	10,245	2,510	1,196	959	303	227	-	20,285

(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, 2017

(Continued)

	Pennsylvania Legal Aid Network								
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	IOLTA Mortgage Foreclosure and Use of the Prior Year Net Assets	IOLTA Bank of America	MLK and Use of the Prior Year Net Assets	Total
Space costs:									
Rent and parking	2,925	6,186	1,516	643	580	347	190	-	12,387
Utilities	3,867	8,178	2,004	878	766	383	263	-	16,339
Maintenance and repairs	4,678	9,892	2,424	1,043	927	-	-	-	18,964
Other space costs	-	-	-	261	-	-	-	-	261
Total space costs	<u>11,470</u>	<u>24,256</u>	<u>5,944</u>	<u>2,825</u>	<u>2,273</u>	<u>730</u>	<u>453</u>	<u>-</u>	<u>47,951</u>
Consumable supplies:									
Office and computer supplies	1,249	2,641	647	289	247	143	87	-	5,303
Minor equipment purchases	691	1,462	358	1,098	137	1,391	863	-	6,000
Janitorial supplies	127	269	66	27	25	6	8	-	528
Total consumable supplies	<u>2,067</u>	<u>4,372</u>	<u>1,071</u>	<u>1,414</u>	<u>409</u>	<u>1,540</u>	<u>958</u>	<u>-</u>	<u>11,831</u>
Equipment rental and maintenance:									
Repairs and maintenance	1,280	2,647	675	265	-	263	112	-	5,242
Equipment rentals	4,833	9,992	2,547	1,064	-	-	-	-	18,436
Total equipment rental and maintenance	<u>6,113</u>	<u>12,639</u>	<u>3,222</u>	<u>1,329</u>	<u>-</u>	<u>263</u>	<u>112</u>	<u>-</u>	<u>23,678</u>
Other expenses:									
Insurance and bonding	4,093	8,657	2,121	936	811	420	281	-	17,319
Dues and memberships	4,001	8,272	2,108	393	746	487	165	-	16,172
Printing	804	1,699	416	489	159	-	-	-	3,567
Advertising	136	288	71	29	27	-	-	-	551
Law library and subscriptions	3,718	7,863	1,927	793	737	394	231	-	15,663
Telephone	7,294	15,430	3,739	1,715	1,392	893	508	-	30,971
Postage and freight	1,693	3,580	877	426	335	120	133	-	7,164
Court costs	2,587	5,472	1,341	546	513	224	157	-	10,840
Miscellaneous	491	1,036	256	102	98	1,256	1	-	3,240
Total other expenses	<u>24,817</u>	<u>52,297</u>	<u>12,856</u>	<u>5,429</u>	<u>4,818</u>	<u>3,794</u>	<u>1,476</u>	<u>-</u>	<u>105,487</u>
Depreciation	-	-	-	-	-	-	-	-	-
Total expenses	<u>450,982</u>	<u>932,426</u>	<u>237,639</u>	<u>104,703</u>	<u>84,077</u>	<u>47,654</u>	<u>27,078</u>	<u>31,396</u>	<u>1,915,955</u>
Change in Net Assets	-	81,200	-	-	-	(3,214)	-	-	77,986
Net Assets:									
Beginning of year *	-	7	-	-	-	3,214	-	2,500	5,721
End of year	<u>\$ -</u>	<u>\$ 81,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ 83,707</u>
Acquisition of Property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

* Beginning of year net assets for IOLTA Mortgage was overstated by \$1,259. This was adjusted through current year miscellaneous expense.

(Concluded)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures	Amounts Provided to Subrecipients
<u>U.S. Congress</u>			
Legal Services Corporation Basic Field Grant	09.U01.339060	\$ 1,345,906	\$ -
Legal Services Corporation Technology Initiative Grant	09.U01.339060	12,000	-
Total CFDA 09.339060		<u>1,357,906</u>	<u>-</u>
Total U.S. Congress		<u>1,357,906</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through Pennsylvania Legal Aid Network: Title XX Social Services Block Grant	93.667	450,982	-
Passed through Pennsylvania Department of Community and Economic Development: Passed through Beaver County: Community Services Block Grant	93.569	<u>29,087</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>480,069</u>	<u>-</u>
<u>U.S. Department of Justice</u>			
Passed through PA Commission on Crime and Delinquency: Crime Victim Assistance	16.575	<u>72,988</u>	<u>17,291</u>
Total U.S. Department of Justice		<u>72,988</u>	<u>17,291</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,910,963</u></u>	<u><u>\$ 17,291</u></u>

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

1. General

The accompanying Schedule of Expenditures of Federal Awards (schedule) 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.

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

2. Basis of Accounting and Relationship to the Basic Financial Statements

The accompanying schedule is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Such expenditures are recognized following either the Legal Services Corporation Regulations (45 CFR Part 1630), or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Neighborhood Legal Services Association

Independent Auditor's Reports
Required by the Uniform Guidance

Year Ended June 30, 2017

**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, 2017, 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 11, 2017.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
October 11, 2017

Independent Auditor’s Report on Compliance for its Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**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 *OMB Compliance Supplement* and the *Legal Services Corporation (LSC) Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on NLSA’s major federal program for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *LSC Compliance Supplement for Audits of LSC Recipients*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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

Basis for Qualified Opinion on the Legal Services Corporation Program

As described in Finding 2017-001 in the accompanying schedule of findings and questioned costs, NLSA did not comply with requirements regarding eligibility that are applicable to its Legal Services Corporation program. Compliance with such requirements is necessary, in our opinion, for NLSA to comply with the requirements applicable to that program.

Qualified Opinion on the Legal Services Corporation Program

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion on the Legal Services Corporation Program" paragraph, 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, 2017.

Other Matters

NLSA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NLSA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of NLSA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NLSA's internal control over compliance with the types of requirements that could have a direct and material effect on its 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NLSA's internal control over compliance.

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

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weaknesses; however, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-01 to be a significant deficiency.

NLSA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NLSA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Mahe Duessel

Harrisburg, Pennsylvania
October 11, 2017

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

I. Summary of Audit Results

1. Type of auditor's report issued: Unmodified, prepared in accordance with Generally Accepted Accounting Principles

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: Modified

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

7. Major Programs:

CFDA Number(s)
09.U01.339060

Name of Federal Program or Cluster
Legal Services Corporation

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

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.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

III. Findings and questioned costs for federal awards.

FINDING: 2017-001 Eligibility

U.S. Congress via Legal Services Corporation (CFDA #09.U01.339060)

Statement of Condition: During our audit, we noted that one out of sixty case files selected for testing was not able to be located by Neighborhood Legal Services Association (NLSA).

Criteria: Per Legal Services Corporation (LSC) requirements, each case must meet certain eligibility requirements in order to be funded through the LSC grant.

Cause of the Condition: Although NLSA has established procedures for maintaining closed case files, such procedures failed for the case in question.

Effect of the Condition: We were unable to verify that the eligibility requirements were met for one out of sixty cases selected for testing.

Recommendation: We recommend that NLSA review record retention procedures for closed cases with staff to ensure that procedures are followed and closed case records are properly maintained.

Grantee Response: It is believed that the one file was inadvertently pulled from the closed files and destroyed when the office pulled 10-year-old files for dead-filing. Management agrees that existing dead-filing procedures should be reviewed with staff so as to eliminate the possibility of this type of error occurring in the future. The regular dead-filing of old cases (defined by policy as cases being closed for at least 10 years) is required. Files for this process are identified using our case management system. Identified cases are to be carefully pulled by file number. The files are then again checked against the list prior to being shredded. Each file must be physically opened and the contents reviewed to ensure that the proper file has been pulled. The second check of the file numbers as well as the physical review of the contents are designed to prevent this type of error. In the event, that the file was inadvertently picked up with or placed on a stack of files to be shredded, NLSA will require that any files pulled for dead-filing be placed in a location separate from any other office files and that staff reviewing the files do so in this location and not in their offices. The new case management system and the numbering system it uses will eliminate the possibility of pulling an incorrect file number going forward.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

NONE



Neighborhood Legal Services Association

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CORRECTIVE ACTION PLAN

October 12, 2017

Neighborhood Legal Services Association respectfully submits the following corrective action plan for the year ended June 30, 2017.

Maher Duessel
3003 North Front Street, Suite 101
Harrisburg, PA 17110

Audit Period: July 1, 2016 – June 30, 2017

The finding from the June 30, 2017 schedule of finding s and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT


Significant deficiency not considered material

2017-001 Requirements regarding eligibility

Recommendation: We recommend that NLSA review record retention procedures for closed cases with staff to ensure procedures are followed and closed case records are properly maintained.

Action Taken: Management agrees that existing dead-file procedures should be reviewed with staff. The regular dead-filing of old cases is required. Files are identified using our case management system. Identified cases are pulled by file number. The files are then again checked against the list prior to being shredded. Each file must be physically opened and the contents reviewed to ensure that the proper file has been pulled. NLSA requires any files pulled be placed in a location separate from any other office files and that staff reviewing the files do so in this location in their offices.

Sincerely yours,


Phyllis Stevens, Assistant Director NLSA