

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

Financial Statements and
Supplementary Information

Years Ended June 30, 2018 and 2017
with Independent Auditor's Reports

MaherDuessel

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NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

YEARS ENDED JUNE 30, 2018 AND 2017

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YEARS ENDED JUNE 30, 2018 AND 2017

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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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 9, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NLSA's 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.

Mahe Duessel

Harrisburg, Pennsylvania
October 9, 2018

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED JUNE 30, 2018 AND 2017

Assets	2018	2017
Cash and cash equivalents	\$ 1,663,212	\$ 1,068,877
Client escrow funds	14,788	5,678
Contracts and grants receivable:		
Pennsylvania Legal Aid Network	88,660	89,408
Other	111,648	184,828
Promises to give	-	2,058
Prepaid expenses	90,791	80,191
Property and equipment	498,722	548,745
Total Assets	\$ 2,467,821	\$ 1,979,785
<hr/> Liabilities and Net Assets <hr/>		
Liabilities:		
Accounts payable and accrued expenses	\$ 103,276	\$ 42,515
Client trust deposits	14,788	5,678
Other liabilities	3,669	3,834
Total Liabilities	121,733	52,027
Net Assets:		
Unrestricted	1,791,854	1,581,192
Temporarily restricted:		
Legal Services Corporation	406,931	262,859
All other	147,303	83,707
Total temporarily restricted	554,234	346,566
Total Net Assets	2,346,088	1,927,758
Total Liabilities and Net Assets	\$ 2,467,821	\$ 1,979,785

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Temporarily Restricted				Total
	Unrestricted	Legal Services Corporation	All Other	Total	
Revenues and Other Support:					
Grants and contracts	\$1,533,571	\$1,426,868	\$1,424,187	\$2,851,055	\$4,384,626
Contributions:					
In-kind	815,245	-	-	-	815,245
Other	422,441	-	-	-	422,441
Interest income	1,187	92	2,131	2,223	3,410
Other income	21,647	-	-	-	21,647
Net assets released from restrictions	2,645,610	(1,282,888)	(1,362,722)	(2,645,610)	-
Total revenues and other support	5,439,701	144,072	63,596	207,668	5,647,369
Expenses:					
Program services	4,851,537	-	-	-	4,851,537
Management and general	272,629	-	-	-	272,629
Fundraising	104,873	-	-	-	104,873
Total expenses	5,229,039	-	-	-	5,229,039
Change in Net Assets	210,662	144,072	63,596	207,668	418,330
Net Assets:					
Beginning of year	1,581,192	262,859	83,707	346,566	1,927,758
End of year	\$1,791,854	\$ 406,931	\$ 147,303	\$ 554,234	\$2,346,088

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
Other	226,137	-	-	-	226,137
Interest income	1,187	79	539	618	1,805
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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fund- raising	Total
Personnel Expenses:				
Attorneys	\$ 1,693,986	\$ 100,961	\$ 1,721	\$ 1,796,668
Paralegals	85,698	-	-	85,698
Support staff and administration	785,270	43,436	1,655	830,361
Law students	55,597	-	-	55,597
In-kind services	815,245	-	-	815,245
Employee benefits	842,479	47,462	1,039	890,980
Total personnel expenses	4,278,275	191,859	4,415	4,474,549
Other Expenses:				
Consultants and contractors	128,209	21,626	90,185	240,020
Travel	42,923	6,566	3	49,492
Space costs	115,502	6,507	132	122,141
Consumable supplies	29,108	1,640	16	30,764
Equipment rental and maintenance	57,915	623	-	58,538
Other expenses	153,886	40,708	8,918	203,512
Depreciation	45,719	3,100	1,204	50,023
Total other expenses	573,262	80,770	100,458	754,490
Total expenses	\$ 4,851,537	\$ 272,629	\$ 104,873	\$ 5,229,039

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
Total personnel expenses	4,068,533	224,335	3,727	4,296,595
Other Expenses:				
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
Total other expenses	629,885	83,382	101,397	814,664
Total expenses	<u>\$ 4,698,418</u>	<u>\$ 307,717</u>	<u>\$ 105,124</u>	<u>\$ 5,111,259</u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 418,330	\$ 26,739
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	50,023	53,079
(Increase) decrease in:		
Client escrow funds	(9,110)	16,813
Accounts receivable	73,928	(14,564)
Promises to give	2,058	1,104
Prepaid expenses	(10,600)	1,958
Increase (decrease) in:		
Accounts payable and accrued expenses	60,761	(119,212)
Client trust deposits	9,110	(16,813)
Other liabilities	(165)	(176)
	<u>594,335</u>	<u>(51,072)</u>
Cash provided by (used in) operating activities		
	<u>594,335</u>	<u>(51,072)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	594,335	(51,072)
Cash and Cash Equivalents:		
Beginning of year	<u>1,068,877</u>	<u>1,119,949</u>
End of year	<u>\$ 1,663,212</u>	<u>\$ 1,068,877</u>

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

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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.

Contracts and Grants 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, 2018 and 2017, 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, 2018 AND 2017

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 \$815,245 and \$937,259 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, approximately 4,038 and 4,242 hours of pro bono legal services were provided by attorneys, respectively, and approximately 663 and 1,811 hours of pro bono legal services were provided by paralegals, respectively. For the years ended June 30, 2018 and 2017, in-kind contributed services also included zero and \$37,300, respectively, 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, 2018 AND 2017

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, 2018 and 2017 were zero and \$2,058, respectively.

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, 2018 AND 2017

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.

ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*," is effective for NLSA's financial statements for the year ending June 30, 2020. This amendment provides guidance for revenue recognition related to contributions by clarifying (1) how to evaluate whether transactions should be accounted

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) how to determine whether a contribution is conditional.

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

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 1,352,905	\$ 1,352,905
Furniture and equipment	864,394	864,394
Total	<u>2,217,299</u>	<u>2,217,299</u>
Less: accumulated depreciation	<u>(1,718,577)</u>	<u>(1,668,554)</u>
Total property and equipment, net	<u>\$ 498,722</u>	<u>\$ 548,745</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, 2018 and 2017. The line renews annually in March.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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, 2018 and 2017 was \$22,811 and \$22,308, 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, 2018 and 2017, NLSA was able to document \$180,172 and \$177,369, 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, 2018 AND 2017

7. Net Assets

At June 30, 2018 and 2017, net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Unrestricted net assets:		
Board-designated:		
Operating reserve	\$ 375,000	\$ 375,000
Building reserve	247,500	247,500
Property and equipment	498,722	548,745
Undesignated	<u>670,632</u>	<u>409,947</u>
Total unrestricted net assets	<u>\$ 1,791,854</u>	<u>\$ 1,581,192</u>
Temporarily restricted net assets:		
LSC - carryover	\$ 283,574	\$ 134,697
LSC - property and equipment	1,203	3,609
LSC - advance funding	122,154	113,064
LSC - TIG	-	11,489
MLK	2,500	2,500
IOLTA mortgage foreclosure	11,432	-
AJA	122,531	81,207
Bank of America	5,840	-
The Pittsburgh Foundation	<u>5,000</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 554,234</u>	<u>\$ 346,566</u>
Total Net Assets	<u>\$ 2,346,088</u>	<u>\$ 1,927,758</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, 2018 and 2017, NLSA had an LSC carryover totaling \$283,574 and \$134,697, respectively (19.87% and 9.84% of fiscal year funding, respectively). NLSA requested a waiver to carry over funds in excess of the 10% ceiling for the year ended June 30, 2018. No such waiver was required for the year ended June 30, 2017.

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, 2018 and 2017.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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 \$44,533 and \$41,868 for the years ended June 30, 2018 and 2017.

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 29.53 % of total revenue and other support for the year ended June 30, 2018. The PLAN grant (including IOLTA funding) was approximately 46.10% of total revenue and other support for the year ended June 30, 2018. 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, 2018

Private Attorney Involvement Requirement

Recipient #339060	<u>\$ 1,426,868</u>	
Private Attorney Involvement Requirement		<u>\$ 178,359</u>

Actual Private Attorney Involvement Expenses

Salaries:		
Attorneys	16,515	
Other staff	<u>109,846</u>	
Total salaries	126,361	
Fringe benefits	39,590	
Other non-personnel costs	<u>14,221</u>	
Total Private Attorney Involvement Expenses		<u>180,172</u>
Excess of Private Attorney Involvement Expenses Over Requirement		<u><u>\$ 1,813</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, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	Legal Services Corporation					Pennsylvania Legal Aid Network	IOLTA Helpline	Other	Totals	
	General Program	PAI	Total	LSC TIG	Total				2018	2017
Revenues and Other Support:										
Grants and contracts	\$ 1,246,696	\$ 180,172	\$ 1,426,868	\$ -	\$ 1,426,868	\$ 2,227,675	\$ 60,000	\$ 670,083	\$ 4,384,626	\$ 3,922,608
In-kind contributions	-	-	-	-	-	-	-	815,245	815,245	937,259
In-kind LegalServer	-	-	-	-	-	-	-	-	-	37,300
Other contributions	-	-	-	-	-	-	-	422,441	422,441	226,137
Interest income	92	-	92	-	92	1,035	-	2,283	3,410	1,805
Other income	-	-	-	-	-	-	-	21,647	21,647	12,889
Total revenues and other support	<u>1,246,788</u>	<u>180,172</u>	<u>1,426,960</u>	<u>-</u>	<u>1,426,960</u>	<u>2,228,710</u>	<u>60,000</u>	<u>1,931,699</u>	<u>5,647,369</u>	<u>5,137,998</u>
Expenses:										
Salaries:										
Attorneys	492,659	16,515	509,174	2,593	511,767	951,163	32,224	301,514	1,796,668	1,687,823
In-kind services - pro bono	-	-	-	-	-	-	-	815,245	815,245	937,259
In-kind Legal Server	-	-	-	-	-	-	-	-	-	37,300
Paralegal	710	34,949	35,659	-	35,659	11,184	-	38,855	85,698	57,937
Support staff and administration	188,248	74,897	263,145	-	263,145	383,919	13,005	170,292	830,361	703,605
Law students	16,609	-	16,609	-	16,609	37,361	-	1,627	55,597	47,530
Total salaries	<u>698,226</u>	<u>126,361</u>	<u>824,587</u>	<u>2,593</u>	<u>827,180</u>	<u>1,383,627</u>	<u>45,229</u>	<u>1,327,533</u>	<u>3,583,569</u>	<u>3,471,454</u>
Employee benefits:										
Payroll taxes	56,523	10,633	67,156	-	67,156	115,448	4,339	38,117	225,060	228,708
Retirement plan	14,617	-	14,617	-	14,617	27,267	1,175	1,474	44,533	41,868
Hospitalization and dental insurance	154,330	26,903	181,233	-	181,233	302,973	6,274	86,830	577,310	514,579
Life, accident, and disability insurance	9,340	1,722	11,062	-	11,062	19,087	664	6,129	36,942	33,600
Workers' compensation	1,879	332	2,211	-	2,211	3,807	127	990	7,135	6,386
Total employee benefits	<u>236,689</u>	<u>39,590</u>	<u>276,279</u>	<u>-</u>	<u>276,279</u>	<u>468,582</u>	<u>12,579</u>	<u>133,540</u>	<u>890,980</u>	<u>825,141</u>
Consultants and contractors:										
Consultants	31,381	-	31,381	7,750	39,131	63,857	-	115,406	218,394	215,585
Auditing	5,658	1,008	6,666	-	6,666	11,472	380	3,108	21,626	21,412
Total consultants and contractors	<u>37,039</u>	<u>1,008</u>	<u>38,047</u>	<u>7,750</u>	<u>45,797</u>	<u>75,329</u>	<u>380</u>	<u>118,514</u>	<u>240,020</u>	<u>236,997</u>
Travel:										
Employee travel - local	4,932	868	5,800	-	5,800	9,992	225	2,602	18,619	13,204
Employee travel - out of town	7,058	-	7,058	726	7,784	13,720	-	695	22,199	16,609
Employee travel - Board	869	-	869	-	869	1,737	-	88	2,694	3,463
Travel - training	1,712	-	1,712	420	2,132	3,448	-	400	5,980	10,130
Total travel	<u>14,571</u>	<u>868</u>	<u>15,439</u>	<u>1,146</u>	<u>16,585</u>	<u>28,897</u>	<u>225</u>	<u>3,785</u>	<u>49,492</u>	<u>43,406</u>

(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, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

(Continued)

	Legal Services Corporation								Totals	
	General Program	PAI	Total	LSC TIG	Total	Pennsylvania Legal Aid Network	IOLTA Helpline	Other	2018	2017
Space costs:										
Rent and parking	7,000	1,063	8,063	-	8,063	14,028	-	720	22,811	22,308
Utilities	10,067	1,713	11,780	-	11,780	20,341	-	4,642	36,763	30,846
Maintenance and repairs	12,372	2,062	14,434	-	14,434	24,175	-	5,642	44,251	36,388
Other space costs	16,547	854	17,401	-	17,401	438	-	477	18,316	12,898
Total space costs	45,986	5,692	51,678	-	51,678	58,982	-	11,481	122,141	102,440
Consumable supplies:										
Office and computer supplies	3,064	531	3,595	-	3,595	6,198	-	1,598	11,391	10,229
Minor equipment purchases	4,904	836	5,740	-	5,740	9,910	-	2,300	17,950	101,344
Janitorial supplies	459	-	459	-	459	916	-	48	1,423	911
Total consumable supplies	8,427	1,367	9,794	-	9,794	17,024	-	3,946	30,764	112,484
Equipment rental and maintenance:										
Repairs and maintenance	-	544	544	-	544	4,918	-	6,222	11,684	13,104
Equipment rentals	-	-	-	-	-	18,510	-	28,344	46,854	52,533
Total equipment rental and maintenance	-	544	544	-	544	23,428	-	34,566	58,538	65,637
Other expenses:										
Insurance and bonding	9,846	1,741	11,587	-	11,587	19,953	598	5,232	37,370	33,011
Dues and memberships	-	-	-	-	-	17,741	-	2,852	20,593	19,407
Printing	2,110	-	2,110	-	2,110	4,292	-	8,098	14,500	21,537
Advertising	1,598	-	1,598	-	1,598	3,196	-	4,043	8,837	978
Law library and subscription	10,504	-	10,504	-	10,504	20,980	-	1,036	32,520	27,132
Telephone	13,686	2,437	16,123	-	16,123	27,640	-	8,540	52,303	59,626
Postage and freight	2,686	564	3,250	-	3,250	5,525	989	2,331	12,095	15,577
Court costs	6,363	-	6,363	-	6,363	12,795	-	2,602	21,760	18,618
Miscellaneous	1,090	-	1,090	-	1,090	2,123	-	321	3,534	4,735
Total other expenses	47,883	4,742	52,625	-	52,625	114,245	1,587	35,055	203,512	200,621
Depreciation	2,406	-	2,406	-	2,406	-	-	47,617	50,023	53,079
Total expenses	1,091,227	180,172	1,271,399	11,489	1,282,888	2,170,114	60,000	1,716,037	5,229,039	5,111,259
Change in Net Assets	155,561	-	155,561	(11,489)	144,072	58,596	-	215,662	418,330	26,739
Net Assets:										
Beginning of year	251,370	-	251,370	11,489	262,859	83,707	-	1,581,192	1,927,758	1,901,019
End of year	\$ 406,931	\$ -	\$ 406,931	\$ -	\$ 406,931	\$ 142,303	\$ -	\$ 1,796,854	\$ 2,346,088	\$ 1,927,758
Acquisition of Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

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

YEAR ENDED JUNE 30, 2018

	Pennsylvania Legal Aid Network							Total
	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	IOLTA Bank of America	MLK and MLK Fellow	
Revenues and Other Support:								
Contracts and grants	\$ 477,020	\$ 1,224,340	\$ 231,275	\$ 104,097	\$ 114,242	\$ 64,237	\$ 12,464	\$ 2,227,675
Interest income	-	895	-	-	83	57	-	1,035
Total revenues and other support	<u>477,020</u>	<u>1,225,235</u>	<u>231,275</u>	<u>104,097</u>	<u>114,325</u>	<u>64,294</u>	<u>12,464</u>	<u>2,228,710</u>
Expenses:								
Salaries:								
Attorneys	213,640	497,810	109,594	46,066	44,294	33,370	6,389	951,163
Paralegal	2,342	5,209	2,554	3	1,076	-	-	11,184
Support staff and administration	81,790	213,730	37,236	19,039	18,421	13,703	-	383,919
Law students	7,216	18,857	3,285	1,378	1,625	-	5,000	37,361
Total salaries	<u>304,988</u>	<u>735,606</u>	<u>152,669</u>	<u>66,486</u>	<u>65,416</u>	<u>47,073</u>	<u>11,389</u>	<u>1,383,627</u>
Employee benefits:								
Payroll taxes	24,558	64,175	11,180	5,548	5,531	3,968	488	115,448
Retirement plan	6,351	16,595	2,891	-	1,430	-	-	27,267
Hospitalization and dental insurance	67,053	175,221	30,527	13,754	15,102	825	491	302,973
Life, accident, and disability insurance	4,058	10,605	1,848	911	914	655	96	19,087
Workers' compensation	816	2,133	372	176	184	126	-	3,807
Total employee benefits	<u>102,836</u>	<u>268,729</u>	<u>46,818</u>	<u>20,389</u>	<u>23,161</u>	<u>5,574</u>	<u>1,075</u>	<u>468,582</u>
Consultants and contractors:								
Consultants	13,634	35,628	6,207	5,317	3,071	-	-	63,857
Auditing	2,458	6,424	1,119	534	554	383	-	11,472
Total consultants and contractors	<u>16,092</u>	<u>42,052</u>	<u>7,326</u>	<u>5,851</u>	<u>3,625</u>	<u>383</u>	<u>-</u>	<u>75,329</u>
Travel:								
Employee travel - local	2,143	5,600	976	460	483	330	-	9,992
Employee travel - out of town	3,067	8,014	1,396	552	691	-	-	13,720
Travel - Board	378	987	172	67	85	48	-	1,737
Travel - training	744	1,943	339	148	168	106	-	3,448
Total travel	<u>6,332</u>	<u>16,544</u>	<u>2,883</u>	<u>1,227</u>	<u>1,427</u>	<u>484</u>	<u>-</u>	<u>28,897</u>

(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, 2018

(Continued)

Pennsylvania Legal Aid Network

	Federal Title XX	Access to Justice Act	State	DAP	IOLTA	IOLTA Bank of America	MLK and MLK Fellow	Total
Space costs:								
Rent and parking	3,041	7,947	1,385	566	685	404	-	14,028
Utilities	4,374	11,430	1,991	909	985	652	-	20,341
Maintenance and repairs	5,375	14,047	2,447	1,095	1,211	-	-	24,175
Other space costs	-	-	-	438	-	-	-	438
Total space costs	<u>12,790</u>	<u>33,424</u>	<u>5,823</u>	<u>3,008</u>	<u>2,881</u>	<u>1,056</u>	-	<u>58,982</u>
Consumable supplies:								
Office and computer supplies	1,331	3,478	606	281	300	202	-	6,198
Minor equipment purchases	2,131	5,567	970	444	480	318	-	9,910
Janitorial supplies	199	521	91	35	45	25	-	916
Total consumable supplies	<u>3,661</u>	<u>9,566</u>	<u>1,667</u>	<u>760</u>	<u>825</u>	<u>545</u>	-	<u>17,024</u>
Equipment rental and maintenance:								
Repairs and maintenance	1,117	2,772	542	280	-	207	-	4,918
Equipment rentals	4,384	10,880	2,125	1,121	-	-	-	18,510
Total equipment rental and maintenance	<u>5,501</u>	<u>13,652</u>	<u>2,667</u>	<u>1,401</u>	-	<u>207</u>	-	<u>23,428</u>
Other expenses:								
Insurance and bonding	4,278	11,179	1,948	923	963	662	-	19,953
Dues and memberships	4,037	10,019	1,957	493	870	365	-	17,741
Printing	917	2,397	418	353	207	-	-	4,292
Advertising	694	1,814	316	216	156	-	-	3,196
Law library and subscriptions	4,564	11,926	2,078	808	1,028	576	-	20,980
Telephone	5,923	15,488	2,700	1,258	1,344	927	-	27,640
Postage and freight	1,168	3,051	532	297	263	214	-	5,525
Court costs	2,764	7,224	1,259	539	623	386	-	12,795
Miscellaneous	475	1,240	214	88	104	2	-	2,123
Total other expenses	<u>24,820</u>	<u>64,338</u>	<u>11,422</u>	<u>4,975</u>	<u>5,558</u>	<u>3,132</u>	-	<u>114,245</u>
Depreciation	-	-	-	-	-	-	-	-
Total expenses	<u>477,020</u>	<u>1,183,911</u>	<u>231,275</u>	<u>104,097</u>	<u>102,893</u>	<u>58,454</u>	<u>12,464</u>	<u>2,170,114</u>
Change in Net Assets	-	41,324	-	-	11,432	5,840	-	58,596
Net Assets:								
Beginning of year	-	81,207	-	-	-	-	2,500	83,707
End of year	\$ -	\$ 122,531	\$ -	\$ -	\$ 11,432	\$ 5,840	\$ 2,500	\$ 142,303
Acquisition of Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Concluded)

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

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	\$ 1,271,399	\$ -
Legal Services Corporation Technology Initiative Grant	09.U01.339060	11,489	-
Total CFDA 09.339060		<u>1,282,888</u>	<u>-</u>
Total U.S. Congress		<u>1,282,888</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	477,020	-
Passed through Pennsylvania Department of Community and Economic Development: Passed through Beaver County: Community Services Block Grant	93.569	25,807	-
Total U.S. Department of Health and Human Services		<u>502,827</u>	<u>-</u>
<u>U.S. Department of Justice</u>			
Passed through PA Commission on Crime and Delinquency: Crime Victim Assistance	16.575	232,062	57,391
Total U.S. Department of Justice		<u>232,062</u>	<u>57,391</u>
Total Expenditures of Federal Awards		<u>\$ 2,017,777</u>	<u>\$ 57,391</u>

See accompanying notes to schedule of expenditures of federal awards.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

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, 2018

**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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2018.

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 9, 2018

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, 2018. 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

Opinion on its 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, 2018.

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.

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

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.

Maher Duessel

Harrisburg, Pennsylvania
October 9, 2018

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

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: Unmodified

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.

III. Findings and questioned costs for federal programs.

No matters were reported.

NEIGHBORHOOD LEGAL SERVICES ASSOCIATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

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).

Status: The finding first occurred in 2017. Corrective action taken; no similar condition noted in the current year.