



Office of Inspector General
Legal Services Corporation

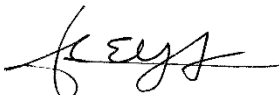
Inspector General

Thomas E. Yatsco

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MEMORANDUM

TO: Board of Directors
Legal Services Corporation

FROM: Thomas E. Yatsco 
Inspector General

SUBJECT: Transmittal of Fiscal Year 2022 Financial Statement Audit Report

DATE: May 18, 2023

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CLA) to audit the financial statements of the Legal Services Corporation (LSC) as of and for the fiscal years ended September 30, 2022. The contract required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, as well as the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

CLA's Independent Auditor's Report on the Financial Statements, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance and Other Matters were dated April 12, 2023. The OIG received the final reports from the Independent Auditor on April 27, 2023.

In its Independent Auditor's Report on the Financial Statements, CLA reported that LSC's financial statements fairly presented, in all material respects, the financial position of LSC as of September 30, 2022, and the related statement of activities and changes in net assets, cash flows, and functional expenses for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CLA's Independent Auditor's Report on the Financial Statements and Independent Auditor's Report on Compliance with Laws and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

CLA's Independent Auditor's Report on Internal Control Over Financial Reporting reported that the results of their tests disclosed no deficiencies in internal control that would be considered material weaknesses.

The OIG reviewed the audit reports from CLA and related audit documentation and inquired of their representatives. The OIG's review disclosed no instances in which CLA did not comply, in all material respects, with *Government Auditing Standards*. Our review, as differentiated from an audit of the financial statements in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on LSC's financial statements, conclusions about compliance with applicable laws and regulations, or the effectiveness of internal controls. CLA is responsible for the attached audit reports, dated April 12, 2023, and the conclusions expressed therein.

Attachment

cc: Ron Flagg, LSC President

LEGAL SERVICES CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021



CPAs | CONSULTANTS | WEALTH ADVISORS

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INDEPENDENT AUDITORS' REPORT

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Legal Services Corporation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Services Corporation, as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2023, on our consideration of Legal Services Corporation'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 Legal Services Corporation'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 Legal Services Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenbelt, Maryland
April 12, 2023

LEGAL SERVICES CORPORATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	\$ 122,535,937	\$ 121,053,931
Accounts Receivable, Net	57,936	121,270
Grant Advances	2,745,699	1,500,134
Prepaid Expenses and Other Assets	512,406	275,392
Property and Equipment, Net	471,026	342,900
Contributions Receivable	1,070,000	105,000
Total Assets	\$ 127,393,004	\$ 123,398,627
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants Payable	\$ 38,760,886	\$ 73,289,265
Accounts Payable and Accrued Expenses	687,849	515,391
Accrued Payroll and Other Payroll Liabilities	1,509,891	1,428,278
Deferred Revenue	23,000	15,000
Total Liabilities	40,981,626	75,247,934
NET ASSETS		
Without Donor Restrictions	13,269,621	11,185,307
With Donor Restrictions	73,141,757	36,965,386
Total Net Assets	86,411,378	48,150,693
Total Liabilities and Net Assets	\$ 127,393,004	\$ 123,398,627

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Federal Appropriations	\$ 28,985,000	\$ 500,000,000	\$ 528,985,000	\$ 28,500,000	\$ 436,499,998	\$ 464,999,998
Grant Revenue	15,000	3,385,104	3,400,104	-	3,286,509	3,286,509
Contributions	1,504,201	654,356	2,158,557	597,865	2,208,008	2,805,873
Investment Income	66,902	880,018	946,920	12,786	133,054	145,840
Other Income	217,022	-	217,022	199,338	-	199,338
Donated Products and Services	206,008	-	206,008	-	-	-
Net Assets Released from Restriction	468,743,107	(468,743,107)	-	445,151,763	(445,151,763)	-
Total Support and Revenue	499,737,240	36,176,371	535,913,611	474,461,752	(3,024,194)	471,437,558
EXPENSES						
Program Services:						
Grants and Contracts	483,007,233	-	483,007,233	457,544,969	-	457,544,969
Total Program Services	483,007,233	-	483,007,233	457,544,969	-	457,544,969
Supporting Services:						
Management and Grant Oversight	7,836,568	-	7,836,568	8,103,193	-	8,103,193
Office of Inspector General	6,301,939	-	6,301,939	5,854,370	-	5,854,370
Fundraising (Institutional Advancement)	507,186	-	507,186	343,710	-	343,710
Total Supporting Services	14,645,693	-	14,645,693	14,301,273	-	14,301,273
Total Expenses	497,652,926	-	497,652,926	471,846,242	-	471,846,242
CHANGE IN NET ASSETS	2,084,314	36,176,371	38,260,685	2,615,510	(3,024,194)	(408,684)
Net Assets - Beginning of Year	11,185,307	36,965,386	48,150,693	8,569,797	39,989,580	48,559,377
NET ASSETS - END OF YEAR	<u>\$ 13,269,621</u>	<u>\$ 73,141,757</u>	<u>\$ 86,411,378</u>	<u>\$ 11,185,307</u>	<u>\$ 36,965,386</u>	<u>\$ 48,150,693</u>

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	Program Services	Supporting Services			Total Supporting Services	Total 2022
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)		
Compensation and Benefits	\$ 12,408,874	\$ 5,916,038	\$ 5,054,670	\$ 341,368	\$ 11,312,076	\$ 23,720,950
Professional Fees	1,068,670	527,196	573,647	122,187	1,223,030	2,291,700
Travel	679,302	128,368	14,556	1,192	144,116	823,418
Technology	543,784	354,348	140,476	11,915	506,739	1,050,523
Occupancy	931,177	627,809	338,998	25,525	992,332	1,923,509
Other Expenses	229,593	282,809	179,592	4,999	467,400	696,993
Grants	467,145,833	-	-	-	-	467,145,833
Total Expenses	\$ 483,007,233	\$ 7,836,568	\$ 6,301,939	\$ 507,186	\$ 14,645,693	\$ 497,652,926

	Program Services	Supporting Services			Total Supporting Services	Total 2021
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)		
Compensation and Benefits	\$ 11,495,844	\$ 5,283,595	\$ 4,870,780	\$ 291,210	\$ 10,445,585	\$ 21,941,429
Professional Fees	934,906	1,463,232	428,813	9,869	1,901,914	2,836,820
Travel	17,078	59,514	124	5	59,643	76,721
Technology	746,522	410,982	116,706	13,371	541,059	1,287,581
Occupancy	905,485	597,907	313,256	23,063	934,226	1,839,711
Other Expenses	1,364,428	287,963	124,691	6,192	418,846	1,783,274
Grants	442,080,706	-	-	-	-	442,080,706
Total Expenses	\$ 457,544,969	\$ 8,103,193	\$ 5,854,370	\$ 343,710	\$ 14,301,273	\$ 471,846,242

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 38,260,685	\$ (408,684)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	157,043	230,027
Loss on Disposal of Assets	19,414	46,539
Changes in Operating Assets and Liabilities:		
Accounts Receivable	63,334	50,572
Grant Receivable	(1,245,565)	(332,359)
Prepaid Expenses and Other Assets	(237,014)	83,098
Contributions Receivable	(965,000)	-
Grants Payable	(34,528,379)	5,708,278
Accounts Payable and Accrued Expenses	172,458	(178,278)
Accrued Payroll and Other Payroll Liabilities	81,613	(122,367)
Deferred Revenue	8,000	15,000
Net Cash Provided by Operating Activities	1,786,589	5,091,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(304,583)	(294,928)
Net Cash Used by Investing Activities	(304,583)	(294,928)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,482,006	4,796,898
Cash and Cash Equivalents - Beginning of Year	121,053,931	116,257,033
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 122,535,937	\$ 121,053,931

See accompanying Notes to Financial Statements.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 1 ORGANIZATION AND PURPOSE

Legal Services Corporation (LSC, we, us, our) is a District of Columbia nonprofit corporation, established by Congress in the Legal Services Corporation Act of 1974, Public Law 93-355, and amended in 1977 by Public Law 95-222. The purpose of LSC is to provide financial support to independent organizations that directly provide legal assistance in noncriminal proceedings or matters to persons financially unable to afford such counsel.

(a) Programs

Basic Field Grants – Provides funding to support the delivery of high-quality civil legal services and access to justice to low-income people throughout the United States and U.S. territories.

Technology Initiative Grants – Provides funding to promote technology to address the civil legal needs of low-income people to stretch limited resources, automate functions, and create easy-to-use information online for self-represented litigants.

Pro Bono Innovation Fund – Provides funding for the development of innovative and replicable pro bono efforts to serve low-income people through private, volunteer attorneys.

Herbert S. Garten Loan Repayment Assistance Program – Provides funding to individuals working for LSC grantees to assist with the payment of eligible law school loans. The program mitigates the economic hardships confronting attorneys, which helps LSC grantees recruit and retain highly qualified attorneys and increases the attorneys' ability and willingness to stay employed by a legal aid organization.

Natural Disaster Supplemental Grants – Provides funding to legal aid organizations to address damage caused by hurricanes, wildfires, earthquakes, tornadoes, floods, and other natural disasters to support the delivery of legal services to individuals affected by disasters.

Veterans Consortium Pro Bono Program – Provides funding from Congress through the U.S. Court of Appeals for Veterans Claims in the Military constructions, Veterans Affairs, and Related Agencies. The program provides free attorneys for low-income veterans and their dependents challenging denials of veterans benefits in federal court.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Presentation

LSC's financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). LSC recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. For the years ended September 30, 2022 and 2021, a portion of LSC's net assets is classified as with donor restrictions. These amounts represent contributions that are limited in accordance with donor-imposed stipulations.

(b) Cash and Cash Equivalents

LSC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. LSC maintains its cash and cash equivalents (and certificates of deposit) in financial institutions which, at times, may exceed federally insured limits or are uninsured. LSC has not experienced any losses in such accounts.

(c) Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use and excluding amounts obligated for basic field grants. The grant advances detailed below represent restricted grant advance payments which require various conditions to be met. These payments are included in the with donor restrictions, until the conditions have been satisfied. The financial assets for general expenditure within one year of the statement of financial position date the following as of September 30:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 122,535,937	\$ 121,053,931
Accounts Receivable, Net	57,936	121,270
Grant Advances	<u>2,745,699</u>	<u>1,500,134</u>
Total Financial Assets Available	125,339,572	122,675,335
Less:		
With Donor Restrictions	(73,141,757)	(36,965,386)
Basic Field Grants	<u>(38,760,886)</u>	<u>(73,289,265)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 13,436,929</u>	<u>\$ 12,420,684</u>

LSC has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$4,700,000.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Program-Related Receivables

Loans under the Herbert S. Garten Loan Repayment Assistance program are measured at fair value at inception and recognized as a receivable. If the recipient meets the conditions of the loan to remain employed by a legal aid organization for one full calendar year, then LSC forgives the loan amount. LSC recognizes grant expense and depletes the receivable balance on an annual basis for those loans that meet the requirements to be forgiven. If a recipient ends their employment with the legal aid organization prior to filling the full year commitment, then the loan remains as due to LSC. There are limited repayment terms on these outstanding loans resulting in the loan amounts being outstanding for a long period of time. LSC recognizes an allowance on the receivable balance for loans that are outstanding and relate to recipients who are still employed at the legal aid organization and are fulfilling their one-year requirement.

Due to COVID-19, the 2021 grant application process was delayed and grants awards were disbursed after September 30, 2021. As of September 30, 2022 and 2021, accounts receivable for the program were \$7,300 and \$13,500, with an allowance of \$5,600 and \$-0-, for a net receivable of \$1,700 and \$13,500, respectively.

(e) Grants and Contributions Receivable

Receivables are carried at original invoice or promise to give amount. Management determines the allowance for doubtful accounts by identifying questionable accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. All grants and contributions receivable were deemed fully collectible within one year as of September 30, 2022 and 2021.

(f) Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. LSC annually reviews property and equipment assets for impairment of value and any adjustment necessary to reflect material impacts in value. The estimated useful lives are as follows:

Furniture and Equipment	5 Years
Software	3 Years
Leasehold Improvements	10 Years

(g) Grants Payable

Grant expense is recognized in the period the grant is countersigned and is payable within one year, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Net Assets

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

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Included within net assets without donor restrictions are resources available for LSC and the Office of Inspector General for general operations or designated by the board of directors for a specific use and are not subject to donor-imposed restrictions. For the periods ending September 30, 2022 and 2021, the board designated net assets without donor restrictions were \$913,739 and \$765,326, respectively.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(i) Revenue and Revenue Recognition

LSC receives federal appropriations which are reported as revenue in the period the appropriation is enacted into law. The federal appropriation is an unconditional, nonreciprocal contribution of cash to LSC from Congress.

Unconditional grants and contributions, including federal appropriations, are recognized as revenue when received or promised and are reported as support with donor restriction if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. As of September 30, 2022, LSC did not have any unrecognized conditional contributions.

(j) Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Most expenses are directly identified with a program activity or supporting service. However, certain costs are attributable to more than one program activity or supporting service and require allocation on a reasonable basis that is consistently applied. Expenses allocated include salaries, occupancy, technology, depreciation, printing, office supplies, and consulting based on estimates of time and effort. In addition, certain financial and human resource service costs were allocated to the Office of General Inspector supporting service category.

LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Concentration of Risk

LSC receives substantially all its revenue from direct federal government appropriations. Should there be a significant reduction in this revenue, LSC's programs and activities could be negatively affected.

(l) Tax Exempt Status

LSC is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and the applicable income tax regulations of the District of Columbia. Income, which is not related to its exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes. LSC had no unrelated business income for the years ended September 30, 2022 and 2021.

(m) Estimates

The preparation of financial statements in conformity U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(n) Change in Accounting Principle

During the year ended September 30, 2022, LSC adopted the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. The adoption of this guidance did not have a significant impact on the financial statements.

(o) Recent Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is the leasing standard for both lessees and lessors. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard as amended, is effective for fiscal years beginning after December 15, 2021 with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this standard on the financial statements.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Furniture and Equipment	\$ 1,801,202	\$ 1,766,099
Software	490,503	240,437
Leasehold Improvements	<u>13,095</u>	<u>13,095</u>
Subtotal	2,304,800	2,019,631
Less: Accumulated Depreciation and Amortization	<u>(1,833,774)</u>	<u>(1,676,731)</u>
Total Property and Equipment, Net	<u><u>\$ 471,026</u></u>	<u><u>\$ 342,900</u></u>

Depreciation and amortization expense totaled \$157,043 and \$230,027 for the years ended September 30, 2022 and 2021, respectively.

NOTE 4 RETIREMENT PLANS

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988, are participants in the Civil Service Retirement Systems (CSRS), although they are neither officers nor employees of the federal government. The CSRS plan is administered by the United States Office of Personnel Management (OPM).

LSC makes CSRS contributions at rates applicable to agencies of the federal government. The contributions do not equal the full-service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service cost requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM and the excess of total pension expense over the amount contributed by us and by our employees represents the amount that must be financed directly by OPM. Postretirement CSRS benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs. LSC does not report in our financial statements CSRS' assets, accumulated plan benefits or unfunded liabilities, if any, applicable to the LSC's employees.

All officers and employees hired after September 30, 1988, are ineligible for the CSRS plan, but they are eligible to participate in LSC's pension and thrift plan, which is a tax deferred annuity plan subject to Section 403(b) of the IRC. LSC contributes 6% of each eligible employee's salary regardless of their participation. In addition, there is a matching contribution of the first 3.51% contributed by the employee.

LSC's contributions to these plans for the years ended September 30, 2022 and 2021, were approximately \$1,669,326 and \$1,483,808, respectively. The amounts are included in compensation and benefits on the accompanying statements of functional expenses.

LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

NOTE 4 RETIREMENT PLANS (CONTINUED)

LSC also offers tax deferred annuity savings plans. CSRS eligible employees may contribute pretax earnings to the federal Thrift Savings Plan, and 403(b) eligible employees may contribute additional pretax earnings to the Section 403(b) plan. These plans are subject to different maximum amounts as permitted by the prevailing laws. LSC makes no contributions to these tax deferred savings plans.

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30 consist of:

	2022	2021
Emergency Disaster Relief	\$ 42,836,500	\$ 7,499,186
Technology Initiative Grant	11,881,450	11,062,837
Pro Bono Innovation	10,098,267	8,702,843
Loan Repayment Assistance	3,333,079	3,593,137
Basic Field Grants	3,220,387	3,238,861
U.S. Court of Veterans Appeals	80,591	76,309
Other Purpose Restrictions	1,691,483	2,792,213
Total	\$ 73,141,757	\$ 36,965,386

NOTE 6 NONCASH CONTRIBUTIONS – CONTRIBUTED SERVICES AND GOODS

LSC receives certain noncash contributions from time to time. In-kind contributions, such as travel and professional services, are valued at their estimated fair market value based on market prices for similar items. There were no donor-imposed restrictions associated with the noncash contributions.

Noncash contributions consisted of the following for the years ended September 30:

	2022	2021
Travel	\$ 168,750	\$ -
Professional Services	37,258	-
Total Noncash Contributions	\$ 206,008	\$ -

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases

LSC is obligated under a lease agreement for office space through May 2023. Total rent expense for the years ended September 30, 2022 and 2021, was \$1,710,000 for each year. In addition to base rent, LSC is required to pay its pro rata share of real estate taxes and operating expenses in excess of the base year, as defined by the lease, which for the fiscal years ended September 30, 2022 and 2021, were \$163,643 and \$95,530, respectively. LSC has the right to terminate the lease by giving no less than 120-day prior written notice if LSC does not receive an appropriation from Congress for administrative costs sufficient to cover LSC and its rental obligations for any period during the term of the lease.

Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2023	<u>\$ 1,140,000</u>
Total Minimum Lease Payments	<u><u>\$ 1,140,000</u></u>

Conditional Grants

As of September 30, 2022, subject to the grantees meeting the applicable terms and conditions, conditional grants awarded to date are expected to be paid in the following years:

<u>Fiscal Year</u>	<u>Amount</u>
2023	\$ 23,141,876
2024	17,639,116
2025	<u>13,900,601</u>
Total Conditional Grants Awarded to Date and Unpaid	54,681,593
Total Conditional Grants Advanced to Grantees	<u>2,745,699</u>
Total	<u><u>\$ 57,427,292</u></u>

Advances of conditional grants are included in grants receivable on the statements of financial position until such time as the conditions are met and the grant expense is recognized. Management expects the grantees will achieve the milestones set forth in the conditional grants and thus the grant amounts will ultimately be recognized as an expense in future years. Unpaid amounts will be funded by net assets with donor restrictions.

NOTE 8 SUBSEQUENT EVENTS

LSC has evaluated subsequent events occurring after the statement of financial position date through April 12, 2023, the date the financial statements were available for issuance and determined that no additional disclosures are required.



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

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

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 Legal Services Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities and changes in net assets, 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 April 12, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Services Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Legal Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Services Corporation'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Services Corporation'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Greenbelt, Maryland
April 12, 2023