OFFICE OF INSPECTOR GENERAL
LSC | America's Partner for Equal Justice
LEGAL SERVICES CORPORATION

Office of Inspector General
Legal Services Corporation
Thomas E. Yatsco, Inspector General
3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660
www.oig.lsc.gov

MEMORANDUM

TO: Board of Directors
Legal Services Corporation

FROM: Thomas E. Yatsco
Inspector General

SUBJECT: Transmittal of Fiscal Year 2023 Financial Statement Audit Report of the Legal Services Corporation

DATE: May 15, 2024

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 year ended September 30, 2023. 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 8, 2024. The OIG received the final reports from the Independent Auditor on May 13, 2024.

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, 2023, 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 8, 2024, and the conclusions expressed therein.

Attachment

cc: Ronald S. Flagg, LSC President

LEGAL SERVICES CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2023 AND 2022

LEGAL SERVICES CORPORATION
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

CliftonLarsonAllen LLP
CLAconnect.com

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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Legal Services Corporation adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

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 8, 2024, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
April 8, 2024

LEGAL SERVICES CORPORATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 143,881,418	$ 122,535,937
Accounts Receivable, Net	70,585	57,936
Grant Advances	624,551	2,745,699
Prepaid Expenses and Other Assets	758,143	512,406
Property and Equipment, Net	390,998	471,026
Contributions Receivable	600,000	1,070,000
Right-of-Use Asset - Operating	1,670,246	-
Total Assets	$ 147,995,941	$ 127,393,004
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants Payable	$ 44,496,081	$ 38,760,886
Accounts Payable and Accrued Expenses	418,186	687,849
Accrued Payroll and Other Payroll Liabilities	2,408,285	1,509,891
Deferred Revenue	69,903	23,000
Lease Liability - Operating	1,670,246	-
Total Liabilities	49,062,701	40,981,626
NET ASSETS		
Without Donor Restrictions	15,495,690	13,269,621
With Donor Restrictions	83,437,550	73,141,757
Total Net Assets	98,933,240	86,411,378
Total Liabilities and Net Assets	$ 147,995,941	$ 127,393,004

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Federal Appropriations	$ 31,900,000	$ 551,485,000	$ 583,385,000	$ 29,000,000	$ 503,385,104	$ 532,385,104
Contributions and Grant Revenue	979,797	2,018,977	2,998,774	1,504,201	654,356	2,158,557
Investment Income	836,766	8,220,411	9,057,177	66,902	880,018	946,920
Other Income	327,625	-	327,625	217,022	-	217,022
Donated Products and Services	-	-	-	206,008	-	206,008
Net Assets Released from Restriction	551,428,595	(551,428,595)	-	468,743,107	(468,743,107)	-
Total Support and Revenue	585,472,783	10,295,793	595,768,576	499,737,240	36,176,371	535,913,611
EXPENSES						
Program Services:						
Grants and Contracts	567,067,324	-	567,067,324	483,007,233	-	483,007,233
Total Program Services	567,067,324	-	567,067,324	483,007,233	-	483,007,233
Supporting Services:						
Management and Grant Oversight	8,631,416	-	8,631,416	7,836,568	-	7,836,568
Office of Inspector General	6,925,645	-	6,925,645	6,301,939	-	6,301,939
Fundraising (Institutional Advancement)	622,329	-	622,329	507,186	-	507,186
Total Supporting Services	16,179,390	-	16,179,390	14,645,693	-	14,645,693
Total Expenses	583,246,714	-	583,246,714	497,652,926	-	497,652,926
CHANGE IN NET ASSETS	2,226,069	10,295,793	12,521,862	2,084,314	36,176,371	38,260,685
Net Assets - Beginning of Year	13,269,621	73,141,757	86,411,378	11,185,307	36,965,386	48,150,693
NET ASSETS - END OF YEAR	$ 15,495,690	$ 83,437,550	$ 98,933,240	$ 13,269,621	$ 73,141,757	$ 86,411,378

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	Program Services	Supporting Services				
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)	Total Supporting Services	Total 2023
Compensation and Benefits	$ 13,356,718	$ 6,244,176	$ 5,303,817	$ 369,785	$ 11,917,778	$ 25,274,496
Professional Fees	1,210,074	805,933	711,772	201,680	1,719,385	2,929,459
Travel	532,114	340,801	60,470	5,934	407,205	939,319
Technology	731,692	401,363	194,127	12,735	608,225	1,339,917
Occupancy	991,372	634,124	361,128	25,699	1,020,951	2,012,323
Other Expenses	237,382	205,019	294,331	6,496	505,846	743,228
Grants	550,007,972	-	-	-	-	550,007,972
Total Expenses	$ 567,067,324	$ 8,631,416	$ 6,925,645	$ 622,329	$ 16,179,390	$ 583,246,714

	Program Services	Supporting Services				
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)	Total Supporting Services	Total 2022
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

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 12,521,862	$ 38,260,685
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	243,815	157,043
Loss on Disposal of Assets	-	19,414
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(12,649)	63,334
Grant Receivable	2,121,148	(1,245,565)
Prepaid Expenses and Other Assets	(245,737)	(237,014)
Contributions Receivable	470,000	(965,000)
Grants Payable	5,735,195	(34,528,379)
Accounts Payable and Accrued Expenses	(269,663)	172,458
Accrued Payroll and Other Payroll Liabilities	898,394	81,613
Deferred Revenue	46,903	8,000
Net Cash Provided by Operating Activities	21,509,268	1,786,589
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(163,787)	(304,583)
Net Cash Used by Investing Activities	(163,787)	(304,583)
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,345,481	1,482,006
Cash and Cash Equivalents - Beginning of Year	122,535,937	121,053,931
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 143,881,418	$ 122,535,937
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Right of Use Assets Received in Exchange for Operating Leases	$ 3,318,043	$ -

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND PURPOSE

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

(a) Programs

Basic Field Grants: These grants support the delivery of high-quality civil legal services and ensure access to justice for low-income individuals across the United States and its U.S. territories.

Technology Initiative Grants: This program provides funding to promote technology to address the civil legal needs of low-income individuals, aiming to extend limited resources, automate functions, and create easy-to-access online information for self-represented litigants.

Pro Bono Innovation Fund: This program provides funding for the development of innovative and replicable pro bono efforts, facilitating the engagement of private, volunteer attorneys in the service of low-income individuals.

Herbert S. Garten Loan Repayment Assistance Program: These grants provide financial support to individuals employed by LSC grantees for the repayment of eligible law school loans. It helps alleviate the financial burdens on legal aid attorneys, aiding in their recruitment and retention.

Natural Disaster Supplemental Grants: These grants provide funding to legal aid organizations for addressing damages incurred from hurricanes, wildfires, earthquakes, tornadoes, floods, and other natural disasters. This support enhances the provision of legal services to individuals impacted by such catastrophic events.

Veterans Consortium Pro Bono Program: This program is funded by Congress through the U.S. Court of Appeals for Veterans Claims in the Military constructions, Veterans Affairs, and Related Agencies. The program provides free legal representation to low-income veterans and their dependents challenging denials of veterans benefits in federal court.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Presentation

The financial statements are prepared on the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America (U.S. GAAP). LSC recognizes revenue at the time it its earned and expenses at the time its incurred.

(b) Cash and Cash Equivalents

LSC classifies all highly liquid investments with an original maturity of three months or less as cash equivalents. LSC's cash and cash equivalents (and certificates of deposit) are held in financial institutions which may, at times, hold balances that 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, are classified as restricted grant advance payments subject to various conditions. These payments are included within 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:

	2023	2022
Cash and Cash Equivalents	$ 143,881,418	$ 122,535,937
Accounts Receivable, Net	70,585	57,936
Grant Advances	624,551	2,745,699
Total Financial Assets Available	144,576,554	125,339,572
Less:		
With Donor Restrictions	(83,437,550)	(73,141,757)
Basic Field Grants	(44,496,081)	(38,760,886)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 16,642,923	$ 13,436,929

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Program-Related Receivables

Loans provided under the Herbert S. Garten Loan Repayment Assistance program are measured at net realizable value at inception and recognized as a receivable. If the recipient remains employed with a legal aid organization for one full calendar year, the loan amount is forgiven. LSC recognizes grant expense and reduces the receivable balance for loans that qualify for forgiveness. If a recipient ends their employment with the legal aid organization prior to completing the full year commitment, the loan is then considered payable to LSC. Due to specific repayment conditions, these loans may remain outstanding for extended periods. LSC recognizes an allowance on the receivable balance for loans that are outstanding and relate to recipients who are still employed by legal aid organizations and are fulfilling their one-year requirement.

(e) Grants and Contributions Receivable

Receivables are recorded at their original invoice value or the promised amount to be given. 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, 2023 and 2022.

(f) Property and Equipment

Property and equipment are recorded at their acquisition 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 agreement 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.

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 – These funds 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 fiscal years ending September 30, 2023 and 2022, the board designated net assets without donor restrictions were $373,625 and $913,739, respectively.

Net Assets With Donor Restrictions – These funds 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 recognizes revenue from federal appropriations at the time such appropriations are enacted into law. The federal appropriation is an unconditional, nonreciprocal contribution from Congress to LSC.

Unconditional grants and contributions, including federal appropriations, are recognized as revenue upon receipt or at the promise of receipt. These contributions are reported as support with donor restrictions 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, 2023, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leases

LSC determines if an arrangement is a lease at inception. Leases are classified as either operating or finance leases and reported on the Statement of Financial Position accordingly. Operating leases are recorded under Right-of-Use (ROU) Asset – Operating and Lease Liability – Operating, while finance leases are recorded under Right-of-Use Assets – Finance and Lease Liability – Finance.

ROU assets represent LSC's right to use the leased asset for the duration of the lease term, whereas lease liabilities represent the obligation to make lease payments as stipulated by the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. For leases lacking an implicit interest rate, LSC uses risk-free market interest for the determination of present value at the lease's inception. Operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any. The lease terms may include options to extend or terminate the lease. These options are included in ROU assets and lease liabilities when they will likely be exercised by LSC.

Lease expenses for lease payments are recognized on a straight-line basis over the lease term. LSC has elected to recognize payments for short-term leases, defined as having a lease term of 12 months or less, immediately rather than recognizing them as a lease liabilities or ROU assets in the Statements of Financial Position.

LSC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In determining whether a contract qualifies as a lease, LSC considers factors such as whether it has substantially all of the rights to the underlying asset through exclusivity, whether it has the authority to direct the use of the asset by deciding on its operational use, and whether the lessor retains any substantive rights to substitute the asset. This assessment can require significant judgment.

(l) Concentration of Risk

The majority of the LSC funding comes from direct appropriations from the federal government. A significant decrease in this funding could adversely impact LSC's program and activities.

(m) 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, 2023 and 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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.

(o) Recent Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) issued Accounting Standards Update 2016-02, *Leases (ASC 842)*. The new standard requires lessees to recognize both a right-of-use asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year, measured at its present value. ASC 842 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. LSC adopted the requirements of the guidance effective October 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, while continuing to present the comparative period in accordance with the guidance under the lease standard in effect during that period.

LSC elected to apply practical expedients permitted under ASC 842, which include 1) not reassess whether expired or existing contracts previously assessed as leases under the old standard (ASC 840) are or contain leases under ASC 842; 2) not reassess the lease classification for any expired or existing leases; and 3) not reassess initial direct costs for any existing leases. LSC also elected to apply the practical expedient to use hindsight in determining the lease.

(p) Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	2023	2022
Furniture and Equipment	$ 1,714,988	$ 1,801,202
Software	490,503	490,503
Leasehold Improvements	13,095	13,095
Subtotal	2,218,586	2,304,800
Less: Accumulated Depreciation and Amortization	(1,827,588)	(1,833,774)
Total Property and Equipment, Net	$ 390,998	$ 471,026

NOTE 3 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense totaled $243,815 and $157,043 for the years ended September 30, 2023 and 2022, respectively.

NOTE 4 RETIREMENT PLANS

Under the Legal Services Corporation Act, employees who joined before October 1, 1988, participate in the Civil Service Retirement System (CSRS), despite not being federal employees. The CSS plan is administered by the United States Office of Personnel Management (OPM).

LSC contributes to the CSRA at rates set for federal agencies, which do not cover the full cost of pension benefits, calculated as the actuarial present value of benefits attributed to services provided by eligible employees during the period. OPM covers any shortfall between LSC's total pension expense and the contributions from LSC and its employees. The financial statements do not reflect these imputed costs, nor do they include the CSRS assets, accumulated benefits, or any unfunded liabilities related to LSC employees.

Employees hired after September 30, 1988, are ineligible for the CSRS plan, but can 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.

For the fiscal years ending September 30, 2023 and 2022, contributions to these plans were approximately $1,780,168 and $1,669,326, respectively. These contributions are reported under compensation and benefits in the accompanying statements of functional expenses.

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30 consist of:

	2023	2022
Emergency Disaster Relief	$ 43,844,606	$ 42,836,500
Technology Initiative Grant	13,828,071	11,881,450
Pro Bono Innovation	11,605,811	10,098,267
Loan Repayment Assistance	3,509,623	3,333,079
Basic Field Grants	8,139,681	3,220,387
U.S. Court of Veterans Appeals	128,779	80,591
Other Purpose Restrictions	2,380,979	1,691,483
Total	$ 83,437,550	$ 73,141,757

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. For fiscal years ending September 20, 2023 and 2022, noncash contributions were $-0- and $206,008, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases (FASB ASC 842)

In September 2012, LSC entered into an operating lease for office space in Washington, DC set to expire in May 2023. During 2023, the agreement was amended to extend the lease through September 2024. In accordance with ASC 842, the lease liability was remeasured as of the effective date of the modification. The lease requires monthly payments, with no increases over the term. LSC recorded a ROU asset and lease liability. Total rent expense for the years ended September 30, 2023 and 2022, 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, 2023 and 2022, were $175,735 and $163,643, respectively.

Future minimum lease payments are as follows:

Lease Cost		
Operating Lease Costs	$	1,710,000
Cash Paid for Amounts Included in the Measurement of Lease Liability:		
Operating Cash Flows from Operating Leases	$	1,710,000
Right-of-Use Asset Obtained in Exchange for New Operating Lease Liability	$	3,318,043
Weighted-Average Remaining Lease Term - Operating		1 Year
Weighted-Average Discount Rate - Operating Leases		4.37%

Year Ending September 30,		Operating
2024	$	1,710,000
Total		1,710,000
Less: Imputed Interest		(39,754)
Total	$	1,670,246

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases (FASB ASC 842) (Continued)

During 2023, LSC entered into a new lease for office space in Washington, D.C. commencing in January 2025. The lease requires escalating monthly payments totaling $39,934,470 over a 15-year term. Upon commencement of the lease, LSC will record a lease liability equal to the present value of the required payments and a corresponding right-of-use asset.

Future minimum lease payments are expected to be as follows:

Year Ending September 30,	
2024	$ -
2025	1,538,742
2026	2,093,718
2027	2,150,851
2028	2,209,412
Thereafter	31,941,747
Total	$ 39,934,470

Leases (FASB ASC 840)

LSC elected to apply the provisions of FASB ASC 842 to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended September 30, 2022 are made under prior lease guidance in FASB ASC 840.

LSC leases office facilities under a noncancelable operating lease. Future minimum rent commitments under this facility lease were as follows:

Fiscal Year	Amount
Total Minimum Lease Payments, 2023	$ 1,140,000

Conditional Grants

As of September 30, 2023, subject to the grantees meeting the applicable terms and conditions, conditional grants awarded to date are expected to be paid in the following years:

Fiscal Year	Amount
2024	$ 28,867,120
2025	20,023,282
2026	19,524,839
Total Conditional Grants Awarded to Date and Unpaid	68,415,241
Total Conditional Grants Advanced to Grantees	624,551
Total	$ 69,039,792

Advances made for conditional grants are recorded as 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 8, 2024, 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, 2023, 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 8, 2024.

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

CliftonLarsonAllen LLP

Greenbelt, Maryland
April 8, 2024