Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

MEMORANDUM

TO: Board of Directors
Legal Services Corporation

FROM: Jeffrey E. Schanz
Inspector General

SUBJECT: Transmittal of FY 2015 Financial Statement Audit Report

DATE: February 8, 2016

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of WithumSmith+Brown, PC (WS+B) to audit the financial statements of the Legal Services Corporation (LSC) as of September 30, 2015. The audit was required to be conducted 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.

The Independent Auditors' Report on LSC's Financial Statements and Report On Internal Control over Financial Reporting and On Compliance and Other Matters by WS+B were dated January 12, 2016. The OIG received the final reports from the Independent Auditor on February 4, 2016.

The Independent Auditors' Report by WS+B stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2015 and 2014, 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.

WS+B'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* did not identify any deficiencies in internal control that are considered to be material weaknesses; and, reported that the results of their tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

OIG reviewed the audit reports from WS+B and related audit documentation and inquired of their representatives. OIG's review disclosed no instances in which WS+B did not comply, in all material respects, with *Government Auditing Standards*. Our review, as differentiated from an audit in accordance with generally accepted 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. WS+B is responsible for the attached audit reports, dated January 12, 2016, along with the conclusions expressed in the reports.

As part of the audit report, the OIG is transmitting a management letter prepared by the Independent Auditor that addresses an opportunity for strengthening LSC's internal controls and operating efficiency related to the OIG policy and procedures on Inventory Management.

Attachment

cc: Jim Sandman
President

AUDIT TAX ADVISORY

LEGAL SERVICES CORPORATION

Financial Statements

September 30, 2015 and 2014

With Independent Auditors' Reports

Legal Services Corporation
Table of Contents
September 30, 2015 and 2014

withum
AUDIT TAX ADVISORY

Independent Auditors' Report

To Inspector General and Board of Directors,
Legal Services Corporation:

Report on the Financial Statements
We have audited the accompanying financial statements of Legal Services Corporation ("LSC"), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net asset 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.

Auditors' 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 auditors' 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 LSC as of September 30, 2015 and 2014, 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.

Report on Other Legal and Regulatory Requirements
In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016, on our consideration of LSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LSC's internal control over financial reporting and compliance.

WithumSmith+Brown, PC

Philadelphia, Pennsylvania
January 12, 2016

Legal Services Corporation
Statements of Financial Position
September 30, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 88,687,167	$ 79,156,042
Accounts receivable, net	39,970	53,377
Contributions receivable	542,140	346,220
Grants receivable	500,000	800,000
Prepaid expenses and deposits	369,909	319,953
Total current assets	90,139,186	80,675,592
Property and equipment, net	194,423	376,465
Contributions receivable, net of current portion	1,180,320	1,374,640
Grants receivable, net of current portion	--	400,000
	$ 91,513,929	$ 82,826,697
Liabilities and Net Assets		
Current liabilities		
Grants and contracts payable	$ 72,408,184	$ 67,367,277
Accounts payable	1,536,774	823,307
Accrued vacation and other liabilities	2,581,700	1,200,355
Deferred revenue	2,759,649	2,115,637
Total current liabilities	79,286,307	71,506,576
Net assets		
Unrestricted		
Undesignated	7,810,341	7,240,800
Board designated	945,395	517,383
Net investment in fixed assets	194,423	376,465
Total unrestricted	8,950,159	8,134,648
Temporarily restricted	3,277,463	3,185,473
Total net assets	12,227,622	11,320,121
	$ 91,513,929	$ 82,826,697

The Notes to Financial Statements are an integral part of these statements.

Legal Services Corporation
Statements of Activities and Changes in Net Assets
Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Federal appropriations	$ 375,000,000	$ --	$ 375,000,000
Grant revenue	2,501,330	425,000	2,926,330
Contributions	--	542,348	542,348
Other income	12,738	--	12,738
Change in deferred revenue	(645,343)	--	(645,343)
Net assets released from restriction	875,358	(875,358)	--
	377,744,083	91,990	377,836,073
Expenses			
Program services			
Grants and contracts	352,178,529	--	352,178,529
Herbert S. Garten Loan Repayment Assistance Program	943,577	--	943,577
Supporting services			
Management and grants oversight	18,984,707	--	18,984,707
Office of Inspector General	4,496,907	--	4,496,907
Fundraising	324,852	--	324,852
	376,928,572	--	376,928,572
Change in net assets	815,511	91,990	907,501
Net assets, beginning of year	8,134,648	3,185,473	11,320,121
Net assets, end of year	$ 8,950,159	$ 3,277,463	$ 12,227,622

The Notes to Financial Statements are an integral part of this statement.

Legal Services Corporation
Statements of Activities and Changes in Net Assets
Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Federal appropriations	$ 365,000,000	$ --	$ 365,000,000
Grant revenue	2,500,000	1,200,000	3,700,000
Contributions	--	2,241,899	2,241,899
Special events	--	89,815	89,815
Other income	100,402	--	100,402
Change in deferred revenue	3,389,126	--	3,389,126
Net assets released from restriction	622,313	(622,313)	--
	371,611,841	2,909,401	374,521,242
Expenses			
Program services			
Grants and contracts	347,120,980	--	347,120,980
Herbert S. Garten Loan Repayment Assistance Program	1,030,774	--	1,030,774
Supporting services			
Management and grants oversight	16,928,933	--	16,928,933
Office of Inspector General	4,726,439	--	4,726,439
Fundraising	723,891	--	723,891
	370,531,017	--	370,531,017
Change in net assets	1,080,824	2,909,401	3,990,225
Net assets, beginning of year	7,053,824	276,072	7,329,896
Net assets, end of year	$ 8,134,648	$ 3,185,473	$ 11,320,121

The Notes to Financial Statements are an integral part of this statement.

Legal Services Corporation
Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ 907,501	$ 3,990,225
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	218,346	240,954
Loss on disposal of assets	8,739	--
Changes in assets and liabilities		
Accounts receivable	13,407	(36,442)
Contributions receivable	(1,600)	(1,720,860)
Prepaid expenses and deposits	(49,956)	(14,369)
Grants receivable	700,000	(1,200,000)
Grants and contracts payable	5,040,907	9,786,054
Accounts payable	713,467	518,046
Accrued vacation and other liabilities	1,381,345	55,048
Deferred revenue	644,012	(3,389,126)
Net cash provided by operations	9,576,168	8,229,530
Cash flows from investing activities		
Purchase of property and equipment	(45,043)	(154,323)
Net cash used by investing activities	(45,043)	(154,323)
Net increase in cash and cash equivalents	9,531,125	8,075,207
Cash and cash equivalents		
Beginning of year	79,156,042	71,080,835
End of year	$ 88,687,167	$ 79,156,042
Supplemental disclosure of cash flow information		
Income taxes paid	$ --	$ --
Interest paid	$ --	$ --

The Notes to Financial Statements are an integral part of these statements.

1. Organization and Purpose

Legal Services Corporation ("LSC") is a private non-membership 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 non-criminal proceedings or matters to persons financially unable to afford such counsel.

2. Summary of Significant Accounting Policies

Basis of Accounting
LCS'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.

Basis of Presentation
Financial reporting by not-for-profit organizations requires that resources be classified for accounting and reporting purposes into net asset categories according to externally (donor) imposed restrictions. For the years ended September 30, 2015 and 2014, LSC had accounting transactions in the unrestricted net asset category, which represents net assets that are not subject to donor imposed restriction. LSC classifies the unrestricted net assets into undesignated, board designated and net investment in fixed assets. Board designated net assets represent amounts that have been earmarked by the Board of Directors for continuing programs and administrative activities. Net assets invested in fixed assets represent investments in property, equipment and computer software, net of accumulated depreciation and amortization. LSC also has transactions in the temporarily restricted net asset category, which represents net assets that are subject to donor imposed restrictions.

Cash and Cash Equivalents
LSC's cash and cash equivalents includes a fund balance with the U.S. Treasury of $13,935,000 and $40,117,581 as of September 30, 2015 and 2014, respectively.

Accounts Receivable
Accounts receivable are net of an allowance of $484,400 and $518,240 as of September 30, 2015 and 2014, respectively, determined based on historical experience and an analysis of specific amounts.

Contributions Receivable
Contributions receivable, including unconditional promises to give (pledges), are recognized as revenue in the period received. In accordance with FASB "Fair Value Option" standards LSC has determined the discount rate under its investment protocol is immaterial therefore, no discount has been applied for the payment of future receivables. LSC deems all the contributions to be fully collectible, therefore no allowance has been established for doubtful accounts.

Property and Equipment
Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years. Depreciation is reported as an unallocated expense and is not directly identified with individual functions.

Revenues and Support Recognition
LSC receives federal appropriations for Management and Grants Oversight, and Office of Inspector General funding which are reported as support and revenue in the period the public law makes them available. Unexpended portions of these appropriations are reported as unrestricted net assets.

In addition, LSC receives federal appropriations for Basic Field Programs, Technology Initiatives, LRAP program, and the Pro Bono Innovation. Management considers these earned when LSC has fully executed the related award agreements to third parties. Amounts received for the unearned portions are therefore reported as deferred revenue.

LSC recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as unrestricted or restricted support according to donor stipulations that limit the use of these assets due to time or purpose restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

LSC also has grant revenues which are treated as exchange transactions in the statements of activities and changes in net assets. Funds received in advance of their use are accounted for as deferred revenue in the statements of financial position.

Grant Recoveries
Grantees who have not complied with the requirements of the Legal Services Corporation Act of 1974 and implementing regulations may be subject to actions that result in a recovery of grant funds. Sources of grant refunds may include recoveries of disallowed costs, excess fund balances, unexpended funds on Private Attorney Involvement programs and sanctions imposed by LSC for failure to comply with other regulatory requirements, as well as other types of recoveries. Grant recoveries are reported as a reduction of grant and contract expenses on the accompanying statements of activities and changes in net assets.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Taxes
LSC is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, except for unrelated business income. No provision for income taxes was required for the years ended September 30, 2015 and 2014, as LSC had no net unrelated business income.

LSC has determined there were no uncertain tax positions as of September 30, 2015 and 2014. There was also no tax related to interest and penalties reported in the financial statements. LSC’s Forms 990, Return of Organization Exempt from Income Tax, for the years ending September 30, 2013, 2014 and 2015 are subject to examination by the IRS, generally for 3 years after they were filed.

Concentration of Revenue
LSC receives substantially all of 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.

3. Concentration of Credit Risk – Deposits

In January 2013, LSC started using sweep accounts when the unlimited Federal Deposit Insurance Corporation (“FDIC”) insurance coverage ended, and invested amounts over $250,000 in high-quality, short-term mutual funds that consist of U.S. Treasury obligations. At September 30, 2015 and 2014, LSC had $74,000,167 and $38,509,366, respectively, in excess of FDIC insured limits. LSC believes any risks it is exposed to are minimal.

4. Equipment

Property and equipment consists of the following at September 30, 2015:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,315,492	$ 40,900	$ (248,017)	$ 2,108,375
Software	572,201	2,993	--	575,194
Leasehold improvements	5,545	1,150	--	6,695
Subtotal	2,893,238	45,043	(248,017)	2,690,264
Less: Accumulated depreciation & amorization	(2,516,773)	(218,346)	239,278	(2,495,841)
Capital assets (net)	$ 376,465	$ (173,303)	$ (8,739)	$ 194,423

Property and equipment consists of the following at September 30, 2014:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,343,229	$ 154,323	$ (182,060)	$ 2,315,492
Software	572,201	--	--	572,201
Leasehold improvements	5,545	--	--	5,545
Subtotal	2,920,975	154,323	(182,060)	2,893,238
Less: Accumulated depreciation & amorization	(2,457,879)	(240,954)	182,060	(2,516,773)
Capital assets (net)	$ 463,096	$ (86,631)	$ --	$ 376,465

Depreciation/amortization expense for the years ended September 30, 2015 and 2014 was $218,346 and $240,954, respectively.

5. Financial Instruments

Certain financial instruments are required to be recorded at fair value. Changes in assumptions or estimation methods could affect the fair value estimates; however, management does not believe any such changes would have a material impact on financial condition, results of operations or cash flows. Other financial instruments, including cash equivalents, other investments and short-term debt, are recorded at cost, which approximates fair value.

6. Fair Value Measurements

The Financial Accounting Standards Board established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that LSC has the ability to access.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Fair values of assets measured on a recurring basis at September 30, 2015 are as follows:

	Fair Value Total	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts in U.S. Treasury notes	$ 57,392,418	$ 57,392,418	$ --
TD Investment	350,000	350,000	--
Contribution receivable	1,722,460	--	1,722,460
Loan repayment assistance program receivable	20,838	--	20,838
	$ 59,485,716	$ 57,742,418	$ 1,743,298

Fair values of assets measured on a recurring basis at September 30, 2014 are as follows:

	Fair Value Total	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts in U.S. Treasury notes	$ 22,029,807	$ 22,029,807	$ --
Contribution receivable	1,720,860	--	1,720,860
Loan repayment assistance program receivable	2,330	--	2,330
	$ 23,752,997	$ 22,029,807	$ 1,723,190

Assets measured at fair value on a recurring basis using significant observable inputs (Level 2 inputs):

LSC maintains cash balances at two financial institutions with offices in the Washington, DC metropolitan area. Each institution maintains target balances up to $248,000 with any excess funds swept to an account that purchases mutual funds investing in U.S. Treasury bills with an average dividend rate of 0.01 percent for 2015 and 2014, which is arrived at by the financial institution deducting a fee of up to -0- basis points from the dividend rate provided by the institutions Treasury Reserves. Annual expense ratios are based on amounts incurred during the most recent fiscal year, as shown in the funds' audited financial statements, and may have been restated to reflect current service provider fees, net of any waivers, reimbursements or caps that the fund's manager may have committed to the fund and that are currently in effect. Monthly fees and expenses are approximate, assume that the investor held shares of the fund valued at the ending balance for the entire month, and do not include the effect of any transactions that may have been made during the month.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

The LRAP accounts receivable is stated at the amount management expects to collect from refunded loans. Through an evaluation each year, management adjusts the LRAP allowance account based on its assessment of the current status of individual loans. The net of these two amounts is the receivable reported in the financial statements.

Contributions receivable, arising from unconditional promise to give, is stated at the amount management expects to collect. In accordance with FASB "Fair Value Option" standards LSC has determined the discount rate under its investment protocol is immaterial therefore, no discount has been applied for the payment of future receivables.

The table below presents information about the changes in the Loan Repayment Assistance Program and the contributions receivable:

	2015	2014
Loan repayment assistance program		
Beginning balance	$ 2,330	$ 10,338
Net increase (decrease)	18,508	(8,008)
Ending balance	$ 20,838	$ 2,330
Contributions receivable		
Beginning balance	$ 1,720,860	$ --
Net increase	1,600	1,720,860
Ending balance	$ 1,722,460	$ 1,720,860

7. Grants Receivable and Deferred Revenue

LSC operates under various federal appropriations and grants from private sources. At September 30, 2015 and 2014, LSC was due certain amounts from private funding sources which resulted from execution of grant agreements. LSC also received appropriated funds in excess of amounts earned on providing related services, resulting in deferred revenue that continue into the subsequent year. The following details the grants receivables and deferred revenue at September 30:

	2015	2014
Grants receivable		
The Margaret A. Cargill Foundation	$ 400,000	$ 1,200,000
Kresge Foundation	100,000	--
	$ 500,000	$ 1,200,000
Deferred revenue		
Basic Field Programs	$ 1,141,575	$ 508,647
U.S. Court of Veterans Appeals	12,485	5,422
Technology Initiatives	140,746	193,149
Loan Repayment Assistance Program	1,464,843	1,408,419
	$ 2,759,649	$ 2,115,637

8. Grants and Contracts Expense

Grants and contracts expense for the years ended September 30, 2015 and 2014 consists of the following:

	2015	2014
Basic Field Programs	$ 342,470,572	$ 335,824,344
U.S. Court of Vets Appeal Funds	2,492,937	2,501,329
Hurricane Sandy Disaster Relief Funds	21,401	--
Grants From Other Funds	47,280	63,266
Pro Bono Innovation Fund	3,800,463	2,375,000
Technology Initiatives	4,052,402	6,682,679
Midwest Disaster Relief Fund	824,186	--
Vieth Leadership Fund	50,000	--
Grants Recoveries	(1,580,712)	(325,638)
	$ 352,178,529	$ 347,120,980

9. Management and Grants Oversight

Management and grants oversight expenses for the years ended September 30, 2015 and 2014 consists of the following:

	2015	2014
Compensation and benefits	$ 14,032,355	$ 12,114,233
Temporary employee pay	522,584	580,203
Consulting	743,676	543,546
Travel and transportation	788,261	786,868
Communications	84,461	85,499
Occupancy cost	1,722,793	1,711,442
Printing and reproduction	53,467	57,456
Other operating expenses	810,025	808,732
Capital expenditures	42,124	144,351
Sub-total	18,799,746	16,832,330
Depreciation & amortization	218,346	240,954
Loss on disposal of assets	8,739	--
Less: Capitalized assets	(42,124)	(144,351)
	$ 18,984,707	$ 16,928,933

10. Office of Inspector General

LSC's Office of Inspector General expenses for the years ended September 30, 2015 and 2014 were as follows:

	2015	2014
Compensation and benefits	$ 3,831,034	$ 4,018,029
Temporary employee pay	18,880	11,150
Consulting	329,959	332,890
Travel and transportation	226,571	236,310
Communications	19,271	29,482
Occupancy cost	12	4,075
Printing and reproduction	10,024	13,020
Other operating expenses	61,156	81,483
Capital expenditures	2,918	9,971
Sub-total	4,499,825	4,736,410
Less: Capitalized assets	(2,918)	(9,971)
	$ 4,496,907	$ 4,726,439

11. Fundraising

LSC's Fundraising expenses for the years ended September 30, 2015 and 2014 were as follows:

	2015	2014
Compensation and benefits	$ 259,205	$ 218,516
Temporary employee pay	11,418	9,945
Consulting	21,408	74,329
Travel and transportation	18,555	299,471
Communications	731	816
Printing and reproduction	70	10,045
Other operating expenses	13,465	110,769
	$ 324,852	$ 723,891

12. 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 System ("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 LSC and by LSC employees represents the amount that must be financed directly by OPM.

Post-retirement CSRS benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs. LSC does not report in its financial statements CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its 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 Internal Revenue Code. LSC contributes 6 percent of each eligible employee's salary regardless of their participation. In addition, LSC matches the first 2.51 percent contributed by the employee. Individuals can make contributions up to the maximum amount permitted under federal income tax rules.

LSC's contributions to these plans for the years ended September 30, 2015 and 2014 were $1,192,416 and $1,063,938, respectively. The amounts are included in compensation and benefits for management and administration expenses.

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. No contributions are made to these tax deferred savings plans by LSC.

13. Operating Lease

LSC renewed its lease agreement in September 2012, commencing in June 2013, for an additional 10 years. Under the new lease, LSC has an obligation to pay a portion of building operating expenses in excess of the base year. No additional building operating expenses were incurred for the years ended September 30, 2015 or 2014. LSC has the right to terminate the lease by giving no less than 120-day prior written notice in the event that 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 required under this lease as of September 30, 2015 are as follows:

Fiscal Year	Amount
2016	$ 1,710,000
2017	1,710,000
2018	1,710,000
2019	1,710,000
2020	1,710,000
Thereafter	4,560,000
	$ 13,110,000

Rental expense for the years ended September 30, 2015 and 2014 is $1,710,000 and $1,714,503, respectively.

14. Contingencies

Grants and Contracts

LSC received funding from appropriations by Congress and grants from the U.S. Court of Veterans Appeals, and several private grant foundations. Accordingly, LSC may be subject to federal audits, state charitable solicitation reporting requirements, or private funder guidelines and oversight. In addition, LSC provides significant funding to numerous independent organizations, which are subject to their own audits and audits by LSC.

LSC's management does not expect any significant adjustments as a result of federal or state reporting requirements, should they occur, or from the audits of the grantees' independent auditors.

Claims
Three employment-related claims were filed against LSC during FY2015. The first was filed in the United States District Court for the District of Columbia shortly after the close of FY2014. LSC has filed an Answer to the Complaint as well as a Motion to Dismiss. Compensatory and punitive damages, as well as attorneys' fees, were alleged. Management believes that any recoveries not covered by insurance would be immaterial to LSC's financial statements and have not been recorded for this contingency.

The second was filed in the Superior Court of the District of Columbia in July 2015, seeking reinstatement; back pay and front pay, attorneys' fees and costs, compensatory damages, and punitive damages. LSC filed an Answer to the Complaint and is in the discovery phase. Because a recovery is remote, no funds have been recorded in LSC's financial statements.

The third was filed with the Equal Employment Opportunity Commission ("EEOC"), but was dismissed in September 2015. No funds for these charges were recorded.

Collection Matters
Upon concluding that a grantee had misused LSC funds and committed other financial irregularities, LSC disallowed approximately $467,619 of the grantee's costs. In 2011, LSC terminated the grantee, which then closed its business and filed for bankruptcy in the United States Bankruptcy Court for the Middle District of Louisiana. LSC and seven other creditors filed Proof of Claims in the bankruptcy proceedings. A hearing of the claims has not yet been scheduled. As this is a collections matter serving to benefit LSC, no funds have been recorded.

15. Loan Repayment Assistance Program

Through the Herbert S. Garten Loan Repayment Assistance Program ("LRAP"), established in 2005 and funded by Congressional appropriations, LSC makes a limited number of forgivable loans to attorneys employed by its grantee programs to help repay law school debt. Each participant receives up to $5,600 per year for three years – for a maximum of $16,800 if they remain eligible and funding remains available.

Participants must commit to remain with the LSC-funded legal services program for three years. As long as the participant remains in good standing, the loans are forgiven. Participants that do not successfully complete employment within the loan terms must repay the loans. No provision has been made in the accompanying financial statements to reflect any interest on the loans as management has deemed these amounts to be immaterial.

Accounts receivable are stated at the amount management expects to collect from refunded loans. Management provides for probable forgiven amounts through an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Accounts receivable balances are written-off through a charge to the valuation allowance in the year the loans are forgiven. Deferred revenue is comprised of funding available for future loans and loan amounts outstanding.

LRAP balances at September 30 are as follows:

		2015		2014
Cash	$	1,457,877	$	1,406,089
Accounts receivable, net	$	20,838	$	2,330
Deferred revenue	$	1,464,843	$	1,408,419

LRAP activity for the years ended September 30 are as follows:

Loans made	$	965,885	$	1,030,400
Loans forgiven	$	977,417	$	1,047,200
Change in allowance for loan forgiveness	$	(33,840)	$	(16,426)

16. Temporarily Restricted Net Assets

Components of temporarily restricted net assets at September 30 were as follows:

		2015		2014
Public Welfare Foundation	$	166,399	$	66,622
Hurricane Sandy Disaster Relief		54,558		75,959
40th Anniversary Campaign		2,380,692		1,842,892
The Margaret A. Cargill Foundation		375,814		1,200,000
Andrew W. Mellon Foundation		100,000		-
William & Flora Hewlett Foundation		100,000		-
Kresge Foundation		100,000		-
	$	3,277,463	$	3,185,473

Temporarily restricted net assets released from restrictions for the years ending September 30 were as follows:

		2015		2014
Public Welfare Foundation	$	224	$	133,491
Hurricane Sandy Disaster Relief		21,401		--
40th Anniversary Campaign		29,547		488,822
The Margaret A. Cargill Foundation		824,186		--
	$	875,358	$	622,313

17. Subsequent Events

Legal Services Corporation has evaluated subsequent events occurring after the statement of financial position date through the date of January 12, 2016, the date the financial statement were available for release. Based on this evaluation, Legal Services Corporation has determined that the following subsequent events have occurred which require disclosure in the financial statements.

Fiscal Year 2016 Funding

After a series of continuing resolutions to partially fund the government for Fiscal Year 2016, the President signed legislation on December 18, 2015 which provides LSC funding of $385 million for fiscal year 2016.

withum
AUDIT TAX ADVISORY

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*

Independent Auditors' Report

To the Inspector General and Board of Directors,
Legal Services Corporation:

We have audited, 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, the financial statements of the Legal Services Corporation ('LSC') as of and for the year ended September 30, 2015 and have issued our report thereon dated January 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LSC'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 LSC's internal control. Accordingly, we do not express an opinion on the effectiveness of LSC'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSC'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 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.

WithumSmith+Brown, PC

Philadelphia, Pennsylvania
January 12, 2016

WithumSmith+Brown, PC Two Logan Square, Suite 2001, 18th and Arch Streets, Philadelphia, Pennsylvania 19103-2726 T (215) 546 2140 F (215) 546 2148 withum.com