Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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MEMORANDUM

TO:	Board of Directors Legal Services Corporation
FROM:	Jeffrey E. Schanz Inspector General
SUBJECT:	Transmittal of FY 2017 Financial Statement Audit Report
DATE:	March 5, 2018

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Castro & Company, LLC (Castro) to audit the financial statements of the Legal Services Corporation (LSC) as of September 30, 2017. 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 Auditor's Report, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance with Laws and Regulations by Castro were dated January 10, 2018. The OIG received the final reports from the Independent Auditor on January 25, 2018.

The Independent Auditor's Report by Castro stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Castro's Report on the Independent Auditor's Report, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance with Laws and Regulations 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 Castro and related audit documentation and inquired of their representatives. OIG's review disclosed no instances in which Castro 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. Castro is responsible for the attached audit reports, dated January 10, 2018, along with the conclusions expressed in the reports.

Attachment

cc: Jim Sandman
President

Castro & Company
Auditors ✓ Advisors

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Independent Auditor's Report

Inspector General and Board of Directors
Legal Services Corporation

We have audited the accompanying financial statements of the Legal Services Corporation (LSC), which comprise the statement of financial position as of September 30, 2017 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements. The financial statements of the LSC as of September 30, 2016 were audited by other auditors whose report dated January 13, 2017, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency'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 agency'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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LSC as of September 30, 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. The financial statements of the LSC as of September 30, 2016 were audited by other auditors whose report dated January 13, 2017, expressed an unmodified opinion on those statements.

Report on Other Legal Regulatory Requirements

In accordance with *U.S. Government Auditing Standards*, we have also issued our report dated January 10, 2018, 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 those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LSC's internal control over financial reporting and compliance, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Directors and the LSC Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

January 10, 2018
Alexandria, VA

Legal Services Corporation
Statement of Financial Position
September 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	$ 89,821,368	$ 89,754,689
Accounts receivable, net	(14,048)	3,232
Contributions receivable	865,076	623,140
Prepaid expenses and deposits	342,018	74,412
Total Current Assets	91,014,414	90,455,473
Property and equipment, net	213,643	180,038
Contributions receivable	275,000	714,000
Total Assets	**$ 91,503,057**	**$ 91,349,511**
Liabilities and Net Assets		
Current Liabilities		
Grants and contracts payable	$ 74,666,023	$ 74,913,537
Accounts payable	419,280	402,874
Accrued vacation and other liabilities	1,252,112	1,311,891
Deferred revenue	2,549,047	2,364,559
Total Liabilities	**78,886,462**	**78,992,861**
Net Assets		
Unrestricted Net Assets:		
Undesignated	7,800,611	6,996,925
Designated	1,986,165	2,443,260
Net invested in fixed assets	213,643	180,038
Total Unrestricted	10,000,419	9,620,223
Temporarily Restricted	2,616,176	2,736,427
Total Net Assets	12,616,595	12,356,650
Total Liabilities and Net Assets	**$ 91,503,057**	**$ 91,349,511**

Legal Services Corporation
Statement of Activities and Changes in Net Assets
Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Federal appropriations	$ -	$ 385,000,000	$ 385,000,000
Grant revenues	-	3,345,055	3,345,055
Contributions	-	100,788	100,788
Other income	14,271	-	14,271
Change in deferred revenue	(184,488)	-	(184,488)
Net assets released from restriction	388,566,094	(388,566,094)	-
Total Revenue	**$ 388,395,877**	**$ (120,251)**	**$ 388,275,626**
Expenses			
Program Services			
Grants and contracts	363,200,924	-	363,200,924
Herbert S. Garten Loan Repayment Assistance Program	1,022,000	-	1,022,000
Supporting Services			
Management and Grants Oversight	18,921,085	-	18,921,085
Office of Inspector General	4,711,392	-	4,711,392
Fundraising	160,280	-	160,280
Total Expenses	**$ 388,015,681**	**$ -**	**$ 388,015,681**
Change in Net Assets	380,196	(120,251)	259,945
Net Assets, Beginning of Year	9,620,223	2,736,427	12,356,650
Net Assets, End of Year	**$ 10,000,419**	**$ 2,616,176**	**$ 12,616,595**

Legal Services Corporation
Statement of Activities and Changes in Net Assets
Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Federal appropriations	$ -	$ 385,000,000	$ 385,000,000
Grant revenues	-	2,750,000	2,750,000
Contributions	43,155	86,587	129,742
Other income	33,495	-	33,495
Change in deferred revenue	395,091	-	395,091
Net assets released from restriction	388,377,623	(388,377,623)	-
Total Revenue	**$ 388,849,364**	**$ (541,036)**	**$ 388,308,328**
Expenses			
Program Services			
Grants and contracts	363,404,223	-	363,404,223
Herbert S. Garten Loan Repayment Assistance Program	982,800	-	982,800
Supporting Services			
Management and Grants Oversight	18,894,536	-	18,894,536
Office of Inspector General	4,698,166	-	4,698,166
Fundraising	199,575	-	199,575
Total Expenses	**$ 388,179,300**	**$ -**	**$ 388,179,300**
Change in Net Assets	670,064	(541,036)	129,028
Net Assets, Beginning of Year	8,950,159	3,277,463	12,227,622
Net Assets, End of Year	**$ 9,620,223**	**$ 2,736,427**	**$ 12,356,650**

Legal Services Corporation
Statement of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 259,945	$ 129,028
Adjustment to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	97,129	84,973
Loss on disposal of assets	1,969	4,118
Change in assets and liabilities:		
Accounts receivable	17,280	36,738
Contributions receivable	596,460	385,320
Prepaid expenses and deposits	(267,604)	295,497
Grants receivable	(399,396)	500,000
Grants and contracts payable	(247,517)	2,505,353
Accounts payable	16,406	(1,133,900)
Accrued salaries, vacation, and other payroll liabilities	(59,778)	(1,269,809)
Deferred revenue	184,488	(395,090)
Net Cash Used by Operating Activities	**$ 199,382**	**$ 1,142,228**
Cash Flows from Investing Activities		
Purchase of fixed assets	(132,703)	(74,706)
Net Cash Used in Investing Activities	**$ (132,703)**	**$ (74,706)**
Net Increase (Decrease) in Cash and Cash Equivalents	**66,679**	**1,067,522**
Cash and Cash Equivalents, Beginning of Year	**89,754,689**	**88,687,167**
Cash and Cash Equivalents, End of Year	**$ 89,821,368**	**$ 89,754,689**

Legal Services Corporation
Notes to the Financial Statements
September 30, 2017 and 2016

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

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**.**

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, 2017 and 2016, 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

LSC's cash and cash equivalents include the following:

Description	**2017**	**2016**
Financial Institutions	$ 34,910,368	$ 69,489,322
U.S. Treasury	54,911,000	20,263,367
Imprest Funds	-	2,000
Total Cash and Cash Equivalents	**$ 89,821,368**	**$ 89,754,689**

Accounts Receivable

Accounts receivable are net of an allowance of $518,000 and $520,800 as of September 30, 2017, and 2016, respectively, and 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 within the management and grants oversight function.

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 temporarily restricted net assets.

In addition, LSC receives federal appropriations for Basic Field Programs, Technology Initiatives, LRAP program, and 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. Grant recoveries have been designated by the Board of Directors to be used to respond to emergency grant requests.

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, 2017 and 2016, as LSC had no net unrelated business income.

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, 2017, 2016 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.

Reclassifications
Certain reclassifications were made to the 2016 financial statements amounts or balances for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

3. NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the FASB issued ASU 2016-14 – Not-for-profit Entities (Topic 958)- Presentation of Financial Statements of Not-for-profit Entities. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 (the ASU), underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions, as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor-imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. The ASU also changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. LSC is currently evaluating the impact these changes will have on its future financial statements.

4. CONCENTRATION OF CREDIT RISK – DEPOSITS

LSC used sweep accounts and invested amounts over $250,000 in high-quality, short-term mutual funds that consist of U.S. Treasury obligations. At September 30, 2017 and 2016, LSC had $34,660,368 and $69,039,356, respectively, in excess of FDIC insured limits. LSC believes any risks it is exposed to are minimal.

5. EQUIPMENT

Property and equipment consists of the following at September 30, 2017:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and Equipment	$ 1,646,273	$ 104,627	$ (92,711)	$ 1,658,189
Software	584,549	25,686	-	610,235
Leasehold Improvements	10,705	2,390	-	13,095
Subtotal	2,241,527	132,703	(92,711)	2,281,519
Less: Accumulated Depreciation and Amortization	(2,061,489)	(97,129)	90,742	(2,067,876)
Net Fixed Assets	**$ 180,038**	**$ 35,574**	**$ (1,969)**	**$ 213,643**

Property and equipment consists of the following at September 30, 2016:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and Equipment	$ 2,108,374	$ 61,341	$ (523,442)	$ 1,646,273
Software	575,193	9,356	-	584,549
Leasehold Improvements	6,696	4,009	-	10,705
Subtotal	2,690,263	74,706	(523,442)	2,241,527
Less: Accumulated Depreciation and Amortization	(2,495,840)	(84,973)	519,324	(2,061,489)
Net Fixed Assets	**$ 194,423**	**$ (10,267)**	**$ (4,118)**	**$ 180,038**

Depreciation and amortization expense for the years ended September 30, 2017 and 2016 was $97,129 and $84,973, respectively.

6. 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.

7. 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, 2017 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	$ 35,278,477	$ 35,278,477	$ -
Contributions Receivable	1,140,076	-	1,140,076
Loan Repayment Assistance Program Receivable	12,525	-	12,525
Total	**$ 36,431,078**	**$ 35,278,477**	**$ 1,152,601**

Fair values of assets measured on a recurring basis at September 30, 2016 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	$ 69,489,322	$ 69,489,322	$ -
Contributions Receivable	1,337,140	-	1,337,140
Loan Repayment Assistance Program Receivable	18,240	-	18,240
Total	**$ 70,844,702**	**$ 69,489,322**	**$ 1,355,380**

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 2017 and 2016, 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 Loan Repayment Assistance Program (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:

	2017	**2016**
Loan Repayment Assistance Program		
Beginning Balance	$ 18,240	$ 20,838
Net increase or (decrease)	(5,715)	(2,598)
Ending Balance	**$ 12,525**	**$ 18,240**
Contributions Receivable		
Beginning Balance	1,337,140	1,722,460
Net increase or (decrease)	(197,064)	(385,320)
Ending Balance	**$ 1,140,076**	**$ 1,337,140**

8. GRANTS RECEIVABLE AND DEFERRED REVENUE

LSC operates under various federal appropriation and grants from private sources. At September 30, 2017 and 2016, 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:

	2017	2016
Grants Receivable		
The Margaret A. Cargill Foundation	$ 399,396	$ -
	$ 399,396	**$ -**
Basic Field Programs	$ 738,460	$ 739,117
U.S. Court of Veterans Appeals	53,146	28,662
Technology Initiatives	268,787	114,737
Loan Repayment Assistance Program	1,460,042	1,482,043
Pro Bono Innovation Funds	28,612	-
Total	**$ 2,549,047**	**$ 2,364,559**

9. GRANTS AND CONTRACTS EXPENSE

Grants and contracts expenses for the years ended September 30, 2017 and 2016 consists of the following:

	2017	2016
Basic Field Programs	$ 352,014,232	$ 352,402,458
US Court of Vets Appeals Funds	2,475,516	2,483,823
Grants from Other Funds	232,000	42,781
Pro Bono Initiative	3,771,388	3,800,000
Technology Initiatives	3,845,950	4,026,010
Midwest Disaster Relief Fund	509,282	186,831
Rural Summer Legal Corps	147,278	292,250
Library Initiative	16,119	69,302
Vieth Leadership Fund	-	50,000
Justice Gap Study	230,944	12,211
Data Driven Management	68,736	37,239
Statewide Website Review	114,952	135,048
Grant Recoveries	(225,473)	(133,730)
Total	**$ 363,200,924**	**$ 363,404,223**

10. MANAGEMENT AND GRANTS OVERSIGHT

Management and grants oversight expenses for the years ended September 30, 2017 and 2016 consists of the following:

Expense Categories	2017	2016
Compensation and benefits	$ 14,368,804	$ 13,914,978
Temporary employee pay	528,373	613,164
Consulting	449,624	845,721
Travel and transportation	746,528	838,107
Communications	89,160	88,082
Occupancy cost	1,783,859	1,757,496
Printing and reproduction	80,655	56,683
Other operating expenses	774,984	691,214
Capital expenditures	109,508	59,155
Sub-total	**$ 18,931,495**	**$ 18,864,600**
Depreciation & Amortization	97,129	84,973
Loss on disposal of assets	1,969	4,118
Less: capitalized assets	(109,508)	(59,155)
Total	**$ 18,921,085**	**$ 18,894,536**

11. OFFICE OF INSPECTOR GENERAL

LSC's Office of Inspector General expenses for the years ended September 30, 2017 and 2016 were as follows:

Expense Categories	2017	2016
Compensation and benefits	$ 3,907,978	$ 3,897,244
Temporary employee pay	24,682	-
Consulting	444,775	497,918
Travel and transportation	244,632	201,801
Communications	17,288	17,026
Occupancy cost	2,816	2,802
Printing and reproduction	7,958	7,842
Other operating expenses	61,263	73,533
Capital expenditures	23,196	15,550
Sub-total	**$ 4,734,588**	**$ 4,713,716**
Less: capitalized assets	(23,196)	(15,550)
Total	**$ 4,711,392**	**$ 4,698,166**

12. FUNDRAISING

LSC's Fundraising expenses for the years ended September 30, 2017 and 2016 were as follows:

Expense Categories	2017	2016
Compensation and benefits	$ 120,865	$ 132,225
Temporary employee pay	9,050	6,333
Consulting	1,558	6,358
Travel and transportation	15,082	34,312
Communications	309	343
Printing and reproduction	-	76
Other operating expenses	13,416	19,928
Total	**$ 160,280**	**$ 199,575**

13. 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, 2017 and 2016 were $1,209,333 and $1,138,146, 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.

14. OPERATING LEASE

LSC renewed its lease agreement in September 2012, commencing in June 2013, for an additional 10 years. Under the lease, LSC has an obligation to pay a portion of building operating expenses in excess of the base year. The pass-through costs for the fiscal years ended September 30, 2017 and 2016 were $63,507 and $38,295, 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 required under this lease as of September 30, 2017, are as follows:

Fiscal Year	**Amount**
2018	$ 1,710,000
2019	1,710,000
2020	1,710,000
2021	1,710,000
Thereafter	2,850,000
Total	**$ 9,690,000**

Rental expense for the years ended September 30, 2017 and 2016 is $1,773,057 and $1,748,295, respectively.

15. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	**2016**
Public Welfare Foundation	$ 12,365	$ 81,101
Hurricane Sandy Disaster Relief	54,558	54,558
40th Anniversary Campaign	2,009,918	2,078,345
The Margaret A. Cargill Foundation	524,755	188,983
Andrew W. Mellon Foundation	14,580	30,698
William & Flora Hewlett Foundation	-	93,895
Kresge Foundation	-	93,895
Ford Foundation	-	114,952
Total	**$ 2,616,176**	**$ 2,736,427**

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

	2017	2016
Public Welfare Foundation	-	48,059
Data Driven Management	68,736	37,239
The Margaret A. Cargill Foundation	84,641	186,831
Rural Summer Legal Corps	147,278	292,250
Library Initiative - Mellon	16,119	69,302
Cargill II	424,640	-
Vieth Leadership Fund	-	50,000
Justice Gap Study	187,790	12,211
Stateside Website Review - Ford	114,952	135,048
LSC Campaign	21,938	46,683
Total	**$ 1,066,094**	**$ 877,623**

16. SUBSEQUENT EVENTS

Legal Services Corporation has evaluated subsequent events occurring after the statement of financial position date through the date of January 10, 2018, the date the financial statements were available for release. Based on this evaluation, LSC has determined that the following subsequent events have occurred which require disclosure in the financial statements.

Fiscal Year 2018 Funding

Four continuing resolutions (CR) to partially fund the government for Fiscal Year (FY) 2018 have been passed by Congress. The last CR was signed on January 22, 2018 which provides LSC funding through February 8, 2018 based on the FY 2017 funding which was $385 million. Although the CR is based on FY 2017 funding levels, it does include a small rescission.

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Independent Auditor's Report on Internal Control

Inspector General and Board of Directors
Legal Services Corporation

We have audited the financial statements of the Legal Services Corporation (LSC) as of and for the year then ended September 30, 2017 and have issued our report thereon dated January 10, 2018. We conducted our audit 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.

In planning and performing our work, we considered the LSC's internal control over financial reporting by obtaining an understanding of the design effectiveness of the LSC's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the LSC's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of the LSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LSC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

This report is intended solely for the information and use of management, the Board of Directors and the LSC Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

January 10, 2018
Alexandria, VA

Castro & Company
Auditors ✓ Advisors

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Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General and Board of Directors
Legal Services Corporation

We have audited the financial statements of the Legal Services Corporation (LSC) as of and for the year then ended September 30, 2017 and have issued our report thereon dated January 10, 2018. We conducted our audit 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 management of the LSC is responsible for complying with laws and regulations applicable to the LSC. 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.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion.

This report is intended solely for the information and use of management, the Board of Directors and the LSC Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

January 10, 2018
Alexandria, VA