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 Schanz
Inspector General

SUBJECT: Transmittal of FY 2016 Financial Statement Audit Report

Report Date: February 16, 2017

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, 2016. 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 13, 2017. The OIG received the final reports from the Independent Auditor on February 16, 2017.

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, 2016 and 2015, 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.

LSC
America's Partner For Equal Justice

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 13, 2017, along with the conclusions expressed in the reports.

Attachment

cc: Jim Sandman
President

January 27, 2017

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

We have audited the financial statements of the Legal Services Corporation as of and for the year ended September 30, 2016*,* and have issued our report thereon dated January 13, 2017. Professional standards require that we advise you of the following matters relating to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated to the Audit Committee during our entrance conference on September 22, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Legal Services Corporation solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We do not have any findings to report regarding significant deficiencies in internal control over financial reporting or material noncompliance.

PLANNED SCOPE AND TIMING OF THE AUDIT

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Legal Services Corporation is included in Note 2 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are depreciation expense and an allowance for doubtful accounts for the Loan Repayment Assistance Program (LRAP) and contributions and grants receivable. Management's estimate of the LRAP allowance is based on management's assumptions of the participants to complete the program. We evaluated the key factors and assumptions used to develop the allowance and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of the discount and allowance for the contributions receivable is based on management's assumptions that all the pledges will be received in full. We reviewed the assumptions and determined that is reasonable in relation to basic financial statements taken as a whole. We also reviewed management's assumptions in calculating depreciation expense and determined it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Legal Services Corporation's financial statements relate to contingencies and fair value estimates.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

UNCORRECTED AND CORRECTED MISSTATEMENTS

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no such misstatements communicated to management.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not communicate any such misstatements to management.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Legal Services Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We have requested certain written representations from management, which we received from management in a letter dated February 7, 2017.

MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Legal Services Corporation engages other accountants in regard to their retirement plans.

OTHER SIGNIFICANT MATTERS, FINDINGS OR ISSUES

In the normal course of our professional association with Legal Services Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Legal Services Corporation's auditors.

withum AUDIT TAX ADVISORY

This report is intended solely for the information and use of the Board of Directors and management of Legal Services Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Withum Smith+Brown, PC

Philadelphia, Pennsylvania

LEGAL SERVICES CORPORATION
Financial Statements
September 30, 2016 and 2015
With Independent Auditors' Reports

Legal Services Corporation
September 30, 2016 and 2015

TABLE OF CONTENTS

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, 2016 and 2015, 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.

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, 2016 and 2015, 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.

withum
AUDIT TAX ADVISORY

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, 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.

Withum Smith+Brown, PC

January 13, 2017

Legal Services Corporation
Statements of Financial Position
September 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 89,754,689	$ 88,687,167
Accounts receivable, net	3,232	39,970
Contributions receivable	623,140	542,140
Grants receivable	--	500,000
Prepaid expenses and deposits	74,412	369,909
Total current assets	90,455,473	90,139,186
Property and equipment, net	180,038	194,423
Contributions receivable, net of current portion	714,000	1,180,320
	$ 91,349,511	$ 91,513,929
Liabilities and Net Assets		
Current liabilities		
Grants and contracts payable	$ 74,913,537	$ 72,408,184
Accounts payable	402,874	1,536,774
Accrued vacation and other liabilities	1,311,891	2,581,700
Deferred revenue	2,364,559	2,759,649
Total current liabilities	78,992,861	79,286,307
Net assets		
Unrestricted		
Undesignated	6,996,925	7,810,341
Board designated	2,443,260	945,395
Net investment in fixed assets	180,038	194,423
Total unrestricted	9,620,223	8,950,159
Temporarily restricted	2,736,427	3,277,463
Total net assets	12,356,650	12,227,622
	$ 91,349,511	$ 91,513,929

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, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Federal appropriations	$ 385,000,000	$ --	$ 385,000,000
Grant revenue	2,500,000	250,000	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	877,623	(877,623)	--
	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
	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

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, 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

Legal Services Corporation
Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Changes in net assets	$ 129,028	$ 907,501
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	84,973	218,346
Loss on disposal of assets	4,118	8,739
Changes in assets and liabilities		
Accounts receivable	36,738	13,407
Contributions receivable	385,320	(1,600)
Prepaid expenses and deposits	295,497	(49,956)
Grants receivable	500,000	700,000
Grants and contracts payable	2,505,353	5,040,907
Accounts payable	(1,133,900)	713,467
Accrued vacation and other liabilities	(1,269,809)	1,381,345
Deferred revenue	(395,090)	644,012
Net cash provided by operating activities	1,142,228	9,576,168
Cash flows from investing activities		
Purchase of property and equipment	(74,706)	(45,043)
Net cash used by investing activities	(74,706)	(45,043)
Net increase in cash and cash equivalents	1,067,522	9,531,125
Cash and cash equivalents		
Beginning of year	88,687,167	79,156,042
End of year	$ 89,754,689	$ 88,687,167
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, 2016 and 2015, 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 $20,263,367 and $13,935,000 as of September 30, 2016 and 2015, respectively.

Accounts Receivable

Accounts receivable are net of an allowance of $520,800 and $484,400 as of September 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016, 2015 and 2014 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. 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 of time 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. The Organization is currently evaluating the impact these changes will have on its future financial statements.

4. 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, 2016 and 2015, LSC had $69,039,356 and $74,000,167, 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, 2016:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,108,375	$ 61,341	$ (523,442)	$ 1,646,274
Software	575,194	9,356	--	584,550
Leasehold improvements	6,695	4,009	--	10,704
Subtotal	2,690,264	74,706	(523,442)	2,241,528
Less: Accumulated depreciation & amorization	(2,495,841)	(84,973)	519,324	(2,061,490)
Capital assets (net)	$ 194,423	$ (10,267)	$ (4,118)	$ 180,038

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

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 was $84,973 and $218,346, 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, 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	$ --
Contribution receivable	1,337,140	--	1,337,140
Loan repayment assistance program receivable	18,240	--	18,240
	$ 70,844,702	$ 69,489,322	$ 1,355,380

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

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 2016 and 2015, 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:

	2016		2015	
Loan repayment assistance program				
Beginning balance	$	20,838	$	2,330
Net (decrease) increase		(2,598)		18,508
Ending balance	$	18,240	$	20,838
Contributions receivable				
Beginning balance	$	1,722,460	$	1,720,860
Net (decrease) increase		(385,320)		1,600
Ending balance	$	1,337,140	$	1,722,460

8. GRANTS RECEIVABLE AND DEFERRED REVENUE

LSC operates under various federal appropriations and grants from private sources. At September 30, 2016 and 2015, 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:

	2016	2015
Grants receivable		
The Margaret A. Cargill Foundation	$ --	$ 400,000
Kresge Foundation	--	100,000
	$ --	$ 500,000
Deferred revenue		
Basic Field Programs	$ 739,117	$ 1,141,575
U.S. Court of Veterans Appeals	28,662	12,485
Technology Initiatives	114,737	140,746
Loan Repayment Assistance Program	1,482,043	1,464,843
	$ 2,364,559	$ 2,759,649

9. GRANTS AND CONTRACTS EXPENSE

Grants and contracts expense for the years ended September 30, 2016 and 2015 consists of the following:

	2016	2015
Basic Field Programs	$ 352,402,458	$ 342,470,572
U.S. Court of Vets Appeal Funds	2,483,823	2,492,937
Hurricane Sandy Disaster Relief Funds	--	21,401
Grants From Other Funds	42,781	47,280
Pro Bono Innovation Fund	3,800,000	3,800,463
Technology Initiatives	4,026,010	4,052,402
Midwest Disaster Relief Fund	186,831	824,186
Justice Gap Study	12,211	50,000
Rural Summer Legal Corps	292,250	--
Library Initiative- Mellon	69,302	--
Vieth Leadership Fund	50,000	--
Data Driven Management- Civil Legal	37,239	--
Statewide Website Review- Ford	135,048	--
Grants Recoveries	(133,730)	(1,580,712)
	$ 363,404,223	$ 352,178,529

10. MANAGEMENT AND GRANTS OVERSIGHT

Management and grants oversight expenses for the years ended September 30, 2016 and 2015 consists of the following:

	2016	2015
Compensation and benefits	$ 13,914,978	$ 14,032,355
Temporary employee pay	613,164	522,584
Consulting	845,721	743,676
Travel and transportation	838,107	788,261
Communications	88,082	84,461
Occupancy cost	1,757,496	1,722,793
Printing and reproduction	56,683	53,467
Other operating expenses	691,214	810,025
Capital expenditures	59,155	42,124
Sub-total	18,864,600	18,799,746
Depreciation & amortization	84,973	218,346
Loss on disposal of assets	4,118	8,739
Less: Capitalized assets	(59,155)	(42,124)
	$ 18,894,536	$ 18,984,707

11. OFFICE OF INSPECTOR GENERAL

LSC's Office of Inspector General expenses for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Compensation and benefits	$ 3,897,244	$ 3,831,034
Temporary employee pay	--	18,880
Consulting	497,918	329,959
Travel and transportation	201,801	226,571
Communications	17,026	19,271
Occupancy cost	2,802	12
Printing and reproduction	7,842	10,024
Other operating expenses	73,533	61,156
Capital expenditures	15,550	2,918
Sub-total	4,713,716	4,499,825
Less: Capitalized assets	(15,550)	(2,918)
	$ 4,698,166	$ 4,496,907

12. FUNDRAISING

LSC's Fundraising expenses for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Compensation and benefits	$ 132,225	$ 259,205
Temporary employee pay	6,333	11,418
Consulting	6,358	21,408
Travel and transportation	34,312	18,555
Communications	343	731
Printing and reproduction	76	70
Other operating expenses	19,928	13,465
	$ 199,575	$ 324,852

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, 2016 and 2015 were $1,138,146 and $1,192,416, 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. No additional building operating expenses were incurred for the years ended September 30, 2016 or 2015. 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, 2016 are as follows:

Fiscal Year	Amount
2017	$ 1,710,000
2018	1,710,000
2019	1,710,000
2020	1,710,000
2021	1,710,000
Thereafter	2,850,000
	$ 11,400,000

Rental expense for the years ended September 30, 2016 and 2015 is $1,748,295 and $1,710,000, respectively.

15. 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

During FY 2016, two employees brought employment-related administrative charges against LSC both before the Equal Employment Opportunity Commission ("EEOC") and its local equivalent, the District of Columbia Office of Human Rights ("DCOHR"). The EEOC found no evidence of violation in either of its two charges. The DCOHR lacked jurisdiction to adjudicate one of its two charges and dismissed the other charge as resolved. Because the risk of loss was remote, an amount was not accrued in these financial statements.

LSC continued to litigate two employment-related civil complaints during FY 2016. The first complaint against the Office of the Inspector General has been pending in the United States District Court for the District of Columbia since October 2015. Discovery is complete and LSC's summary judgment motion is pending. Defense costs of $75,000 have been paid. Any future defense costs and/or damages awarded would be covered by insurance and would have no effect on LSC's FY 2016 financial statements.

The second complaint was filed in the Superior Court of the District of Columbia in July 2015. At Plaintiff's request, the court voluntarily dismissed the complaint, with prejudice in April 2016. Because the risk of loss was remote, management did not record any funds for this contingency.

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.

16. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Public Welfare Foundation	$ 81,101	$ 166,399
Hurricane Sandy Disaster Relief	54,558	54,558
40th Anniversary Campaign	2,078,345	2,380,692
The Margaret A. Cargill Foundation	188,983	375,814
Andrew W. Mellon Foundation	30,698	100,000
William & Flora Hewlett Foundation	93,895	100,000
Kresge Foundation	93,895	100,000
Ford Foundation	114,952	--
	$ 2,736,427	$ 3,277,463

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

	2016	2015
Public Welfare Foundation	$ 48,059	$ 224
Hurricane Sandy Disaster Relief	--	21,401
40th Anniversary Campaign	46,683	29,547
The Margaret A. Cargill Foundation	186,831	824,186
Rural Summer Legal Corps	292,250	--
Library Initiative-Mellon	69,302	--
Vieth Leadership Fund	50,000	--
Justice Gap Study	12,211	--
Data Driven Management	37,239	--
Ford Foundation	135,048	--
	$ 877,623	$ 875,358

17. SUBSEQUENT EVENTS

Legal Services Corporation has evaluated subsequent events occurring after the statement of financial position date through the date of January 13, 2017, 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 2017 Funding

Two continuing resolutions (CR) to partially fund the government for Fiscal Year 2017 have been passed and the President has signed the legislation. The last CR was signed on December 10, 2016 which provides LSC funding through April 28, 2017, based on the fiscal year 2016, which was for $385 million.

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, 2016 and have issued our report thereon dated January 13, 2017.

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*.

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

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.

Withum Smith+Brown, PC

January 13, 2017