WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

Legal Services Corporation

Financial Statements

September 30, 2014 and 2013

With Independent Auditors' Report

Legal Services Corporation
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September 30, 2014 and 2013

WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

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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, 2014 and 2013, and the related statements of activities 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.

Auditor's 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 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 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, 2014 and 2013, 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 5, 2015, 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

Silver Spring, Maryland
January 5, 2015

Basic Financial Statements

Legal Services Corporation
Statements of Financial Position
September 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 79,156,042	$ 71,080,835
Accounts receivable, net	53,377	16,935
Contributions receivable	346,220	-
Grant receivable	800,000	-
Prepaid expenses and deposits	319,953	305,584
Total current assets	80,675,592	71,403,354
Property and equipment, net	376,465	463,096
Contributions receivable	1,374,640	-
Grant receivable	400,000	-
	$ 82,826,697	$ 71,866,450
Liabilities and Net Assets		
Current Liabilities		
Grants and contracts payable	$ 67,367,277	$ 57,581,223
Accounts payable	823,307	305,261
Accrued vacation and other liabilities	1,200,355	1,145,307
Deferred revenue	2,115,637	5,504,763
Total current liabilities	71,506,576	64,536,554
Net assets		
Unrestricted		
Undesignated	7,240,800	6,256,633
Board designated	517,383	334,095
Net investment in fixed assets	376,465	463,096
Total unrestricted	8,134,648	7,053,824
Temporarily restricted	3,185,473	276,072
Total net assets	11,320,121	7,329,896
	$ 82,826,697	$ 71,866,450

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

Legal Services Corporation
Statement of Activities and Change 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)	-
Total Revenue	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
Total Expenses	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 these statements.

Legal Services Corporation
Statement of Activities and Change in Net Assets
Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Federal appropriations	$ 339,926,164	$ 950,000	$ 340,876,164
Grant revenue	2,519,572	-	2,519,572
Other income	29,657	-	29,657
Change in deferred revenue	(1,874,374)	-	(1,874,374)
Net assets released from restriction	961,119	(961,119)	
Total Revenue	341,562,138	(11,119)	341,551,019
Expenses			
Program services			
Grants and contracts	320,928,559	-	320,928,559
Herbert S. Garten Loan Repayment Assistance Program	1,095,858	-	1,095,858
Supporting services			
Management and grants oversight	16,497,513	-	16,497,513
Office of Inspector General	4,599,697	-	4,599,697
Fundraising	41,247	-	41,247
Total Expenses	343,162,874	-	343,162,874
Change in net assets	(1,600,736)	(11,119)	(1,611,855)
Net assets, beginning of year	8,654,560	287,191	8,941,751
Net assets, end of year	$ 7,053,824	$ 276,072	$ 7,329,896

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

Legal Services Corporation
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 3,990,225	$ (1,611,855)
Adjustments to reconcile changes in net assets		
to net cash provided by operating activities:		
Depreciation and amortization	240,954	262,709
Loss on disposal of assets	-	544
Changes in assets and liabilities:		
Accounts receivable	(36,442)	12,138
Contributions receivable	(1,720,860)	-
Prepaid expenses and deposits	(14,369)	(76,744)
Grants receivable	(1,200,000)	
Grants and contracts payable	9,786,054	(2,620,296)
Accounts payable	518,046	(295,616)
Accrued vacation and other liabilities	55,048	46,972
Deferred revenue	(3,389,126)	1,874,374
Net cash provided (used) by operations	8,229,530	(2,407,774)
Cash flows from investing activities		
Purchase of property and equipment	(154,323)	(88,548)
Net cash used by investing activities	(154,323)	(88,548)
Net increase (decrease) in cash and cash equivalents	8,075,207	(2,496,322)
Cash and cash equivalents		
Beginning of year	71,080,835	73,577,157
End of year	$ 79,156,042	$ 71,080,835
Supplemental information		
Income taxes paid	$ -0-	$ -0-
Interest paid	$ -0-	$ -0-

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, 2014 and 2013, 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 U.S. Treasury of $40,117,581 and $1,359,145 as of September 30, 2014 and 2013, respectively.

Accounts Receivable

Accounts receivable are net of an allowance of $518,240 and $534,666 as of September 30, 2014 and 2013, respectively, determined based on historical experience and an analysis of specific amounts.

Contributions Receivable

Contributions received, 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 combined 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.

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 year ended September 30, 2014 and 2013, as LSC had no net unrelated business income.

LSC has determined there were no uncertain tax positions as of September 30, 2014 and 2013. 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, 2012, 2013 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.

Reclassification
In 2014, LSC has changed its presentation of certain expenses, by now including fundraising expenses as a separate caption. Previously, fundraising expenses were reported in the caption Management and Grants Oversight. Amounts presented for the year ended September 30, 2013 have been reclassified to conform to the current presentation. These reclassifications had no effect on previously reported total expenses or changes in net assets. The amount reclassified from Management and Grants Oversight to Fundraising totaled $41,427.

See notes 9 and 11 for detail of the Management and Grants Oversight expenses and Fundraising expenses, respectively.

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, 2014 and 2013, LSC had $38,509,366 and $31,251,793 in excess of FDIC insured limits, respectively. LSC believes any risks it is exposed to are minimal.

4. Equipment

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 /amortization	(2,457,879)	(240,954)	182,060	(2,516,773)
Capital assets (net)	$ 463,096	$ (86,631)	$ -	$ 376,465

Property and equipment consists of the following at September 30, 2013:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,333,827	$ 76,988	$ (67,586)	$ 2,343,229
Software	566,188	6,013	-	572,201
Leasehold improvements	455,647	5,546	(455,648)	5,545
Subtotal	3,355,662	88,547	(523,234)	2,920,975
Less: Accumulated depreciation /amortization	(2,717,860)	(262,709)	522,690	(2,457,879)
Capital assets (net)	$ 637,802	$ (174,162)	$ (544)	$ 463,096

Depreciation/amortization expense for the years ended September 30, 2014 and 2013 was $240,954 and $262,709, 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, we do 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, 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 Receivables	1,720,860		1,720,860
Loan Repayment Assistance Program Receivable	2,330	-	2,330
Total	$ 23,752,997	$ 22,029,807	$ 1,723,190

Fair values of assets measured on a recurring basis at September 30, 2013 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	$ 69,482,281	$ 69,482,281	$ -
Loan Repayment Assistance Program Receivable	10,338	-	10,338
Total	$ 69,492,619	$ 69,482,281	$ 10,338

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% for 2014 and 2013, 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 Contribution Receivables:

	2014	2013
Loan Repayment Assistance Program:		
Beginning Balance	$ 10,338	$ 4,952
Net increase, (decrease)	(8,008)	5,386
Ending Balance	$ 2,330	$ 10,338
Contribution Receivables:		
Beginning Balance	$ -	$ -
Net increase, (decrease)	1,720,860	-
Ending Balance	$ 1,720,860	$ -

7. Grant Receivable and Deferred Revenue

LSC operates under various federal appropriations and grants from private sources. At September 30, 2014 and 2013, 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 grant receivables and deferred revenue at September 30:

	2014	2013
Grants Receivable:		
The Margaret A. Cargill Foundation	$ 1,200,000	$ -
Deferred Revenue:		
Basic Field Programs	$ 508,647	$ 632,991
US Court of Veterans Appeals	5,422	6,752
Technology Initiatives	193,149	3,425,827
Loan Repayment Assistance Program	1,408,419	1,439,193
Total	$ 2,115,637	$ 5,504,763

8. Grants and Contracts Expense

Grants and contracts expense for the years ended September 30, 2014 and 2013 consists of the following:

	2014	2013
Basic Field Programs	$ 335,824,344	$ 316,345,623
U.S. Court of Veterans Appeals	2,501,329	2,521,819
Hurricane Sandy Relief	-	874,041
Grant From Other Funds	63,266	329,298
Pro Bono Innovation	2,375,000	-
Technology Initiatives	6,682,679	914,080
Grant Recoveries	(325,638)	(56,302)
Total	$ 347,120,980	$ 320,928,559

9. Management and Grants Oversight

Management and grants oversight expenses for the years ended September 30, 2014 and 2013 consists of the following:

	2014	2013
Compensation and benefits	$ 12,114,233	$ 11,939,766
Temporary employee pay	580,203	628,522
Consulting	543,546	419,958
Travel and transportation	786,868	646,424
Communications	85,499	83,088
Occupancy cost	1,711,442	1,710,000
Printing and reproduction	57,456	59,448
Other operating expenses	808,732	747,054
Capital expenditures	144,351	50,294
Total	16,832,330	16,284,554
Depreciation and amortization	240,954	262,709
Loss on disposal of assets	-	544
Less: capitalized assets	(144,351)	(50,294)
	$ 16,928,933	$ 16,497,513

10. Office of Inspector General

LSC's Office of Inspector General expenses for the years ended September 30, 2014 and 2013 were as follows:

	2014	2013
Compensation and benefits	$ 4,018,029	$ 3,928,043
Temporary employee pay	11,150	9,775
Consulting	332,890	340,229
Travel and transportation	236,310	218,597
Communications	29,482	21,436
Occupancy cost	4,075	-
Printing and reproduction	13,020	8,496
Other operating expenses	81,483	73,121
Capital expenditures	9,971	38,253
Total	4,736,410	4,637,950
Less: capitalized assets	(9,971)	(38,253)
	$ 4,726,439	$ 4,599,697

11. Fundraising

LSC's Fundraising expenses for the years ended September 30, 2014 and 2013 were as follows:

	2014	2013
Compensation and benefits	$ 218,516	$ 32,852
Temporary employee pay	9,945	70
Consulting	74,329	8,138
Travel and transportation	299,471	57
Communications	816	130
Printing and reproduction	10,045	-
Other operating expenses	110,769	-
Total	$ 723,891	$ 41,247

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% of each eligible employee's salary regardless of their participation. In addition, LSC matches the first 2.51% 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, 2014 and 2013 were $1,063,938 and $992,067, 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, 2014 or 2013. 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, 2014 are as follows:

Fiscal Year		Amount
2015	$	1,710,000
2016		1,710,000
2017		1,710,000
2018		1,710,000
2019		1,710,000
Thereafter		6,270,000
	$	14,820,000

Rental expense for the years ended September 30, 2014 and 2013 is $1,714,503 and $1,712,316, respectively.

14. Contingencies

Grants and Contracts
LSC received funding from appropriations by Congress and grants from the U.S. Court of Veterans Appeals and, accordingly, may be subject to federal audits. In addition, LSC provides significant funding to numerous independent organizations, which are subject to their own independent audits and audits by LSC.

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

Claims

Two claims were filed against LSC during FY2014. The first was a declaratory judgment action filed by a pro se party. No fees or monetary damages were alleged. As a result, no funds were recorded in LSC's financial statements for any contingent liability associated with the case. On June 17, the court dismissed the case without prejudice, and LSC considers the matter closed.

The second was an attorney's fees petition under § 1006(f) of the LSC Act, which requires the court to award fees – paid directly by LSC – to a prevailing defendant upon a finding that an LSC grantee commenced or pursued an action for the sole purpose of harassment or that constituted a malicious abuse of legal process. The petition has been stayed pending an appeal of the underlying judgment to the U.S. Court of Appeals for the Tenth Circuit. No funds had been previously recorded in the financial statements for any contingent liability associated with the petition.

Collection Matters

In 2010, upon concluding that an LSC grantee had misused LSC funds and committed other financial irregularities, LSC disallowed approximately $716,261 of the grantee's costs. On appeal, LSC agreed to reduce that amount to $467,619. In 2011, LSC terminated the grantee, which later went out of business and is currently believed to be insolvent. The Corporation continues to explore its options regarding potential recovery of the previously disallowed amount of $467,619. No amounts 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, 2014 and 2013 are as follows:

		2014		2013
Cash	$	1,406,089	$	1,428,855
Accounts receivable, net	$	2,330	$	10,338
Deferred revenue	$	1,408,419	$	1,439,193

LRAP activity for the years ended September 30, 2014 and 2013 are as follows:

		2014		2013
Loans made	$	1,030,400	$	1,107,054
Loans forgiven	$	1,047,200	$	1,143,840
Change in allowance for loan forgiveness	$	(16,426)	$	(47,982)

16. Temporarily Restricted Net Assets

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

		2014		2013
Public Welfare Foundation	$	66,622	$	200,113
Hurricane Sandy Disaster Relief		75,959		75,959
40th Anniversary Campaign		1,842,892		-
Margaret A. Cargill Foundation		1,200,000		-
Total	$	3,185,473	$	276,072

17. Subsequent Events

Legal Services Corporation has evaluated subsequent events occurring after the statements of financial position date through the date of January 5, 2015, the date the financial statement were available for release.

Fiscal Year 2015 Funding

After a series of continuing resolutions to partially fund the government for Fiscal Year 2015, the President signed legislation on December 16, 2014 which provides LSC funding of $375 million for fiscal year 2015.

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Legal Services Corporation ('LSC') as of and for the year ended September 30, 2014 and have issued our report thereon dated January 5, 2015.

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

Silver Spring, Maryland
January 5, 2015