

Legal Services Corporation



TWENTY-FIFTH ANNIVERSARY



ANNUAL REPORT

LEGAL SERVICES CORPORATION

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Legal Services Corporation

TWENTY-FIFTH ANNIVERSARY

1998-1999 ANNUAL REPORT

ACKNOWLEDGEMENTS

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Anniversary Annual
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TWENTY-FIVE YEARS AGO, OUR GOVERNMENT

made a pledge to help ensure that all persons have access to America's civil justice system by enacting legislation that created the Legal Services Corporation. Over the past quarter century, the Legal Services Corporation (LSC) has helped millions of poor citizens solve important,



sometimes life-threatening, legal problems.

Despite the success of LSC and its many contributions to access to justice for low

“...There is a need to provide high quality legal assistance to those who would be otherwise unable to afford adequate legal counsel...”

1974 LSC ACT

income Americans, its achievements are overshadowed by the fact that so many in our society continue to suffer injustice and are unable to gain access to a lawyer for critical legal assistance. Until all members of our society are afforded that access, this promise of government will continue to be unfulfilled. LSC is committed to promoting a new vision of legal services that will achieve the goal of bringing legal services to those currently denied access to the justice system.

A PROUD HISTORY

Legal Services Corporation has enjoyed bipartisan political support dating back to the time of its founding. LSC was created by Congress and signed into law by President Nixon on July 25, 1974. The LSC Act established LSC's bipartisan nature by mandating the creation of an eleven member Board of Directors that could include no more than six members of the same political party. The authorizing legislation also called for a majority of the members to be attorneys and for others on the Board to be "client members," who themselves were eligible for legal services.

LSC's mission statement instructed the organization to distribute federal grants to independent legal services programs. These local programs were to be governed by their own independent boards of directors, which would set their own case priorities and make their own decisions regarding case acceptance, subject to congressional rules.

In FY1976, LSC received an appropriation of \$92.3 million. Most of LSC's efforts in the ensuing years focused on obtaining funding increases from Congress. A study, for example, of the funding levels of local programs relative to the U.S. population found that more than forty percent of the nation's poor lived in areas not served by any legal services program. The study also found that many other low-income individuals had only token access to the justice system.

"But more than anything else, we have learned that legal assistance for the poor, when properly provided, is one of the most constructive ways to help them help themselves... We propose, simply, to protect and preserve a basic right of all Americans."

RICHARD NIXON, 1974

Based on this study, LSC developed a “minimum access” plan, with the goal of providing a level of funding in every area of the country that would support two lawyers per 10,000 low-income Americans.

In 1977, without controversy, Congress reauthorized LSC for an additional three years. Congress added “improving opportunities for low-income persons” to LSC’s list of purposes and explicitly endorsed efforts to address the problems of the client community. Client participation on local boards was mandated. Presidents Ford and Carter bolstered LSC’s bipartisan tradition, appointing diverse Board members, who while differing over specific policies, were supportive of an active, independent legal services program.

“Without equal access to the law, the system not only robs the poor of their only protection, but it places in the hands of their oppressors the most powerful and ruthless weapon ever invented.”

REGINALD HEBER SMITH, *JUSTICE AND THE POOR*, 1919

Also in the late 1970s, LSC began to focus on making local programs more effective through improved monitoring and evaluation. Efforts to increase the involvement of private attorneys in the delivery of legal services succeeded. LSC initiated two ambitious projects standardizing program procedures: the development of a centralized training program; and production of legal services poverty law practice manuals. By 1980, LSC-funded programs were quickly becoming an accepted part of the legal fabric of America.

During the Reagan presidency, private attorneys became a crucial source of support for LSC. Two new requirements increased the involvement of private attorneys in the control and delivery of legal services. One rule mandated that attorneys appointed by state and local bar associations comprise at least fifty

percent of each local program's board of directors. The other required that every LSC-funded program devote twelve and a half percent of its federal grant to activities that involved private attorneys providing *pro bono* or reduced-fee services to low-income clients. These rules helped familiarize private attorneys with the problems of the poor in their own communities and promoted a relationship of mutual trust and support that strengthened the role of the organized bar as a champion of legal services.

In 1988, Congress mandated the creation of the LSC Office of the Inspector General (OIG). The OIG was formally established in the fall of 1989 with the appointment of LSC's first Inspector General.

Another significant development during the 1980s was the increase in non-LSC funding for legal services. In most areas of the country, programs had always received some funds from private sources or state and local

governments. This outside funding had theretofore represented a *de minimis* portion of programs' budgets. But with funding cuts looming, LSC programs initiated aggressive — and frequently successful — efforts to obtain funding from other sources. State courts and legislatures, for example, created an important outside funding source: Interest on Lawyers' Trust Accounts (IOLTA). IOLTA



An elderly, disabled couple was locked out of their residential hotel room over a \$6 rent dispute. The hotel seized the couple's property — including medicine, the diabetic woman's special food, and the medicine for her guide dog. After legal aid attorneys brought suit, the property was returned, and the Arizona Innkeeper's Lien Statute was declared unconstitutional.

— *Legal Services Corporation Annual Report 1976*

APPROPRIATIONS:

FY1976	\$92.3 million
FY1977	\$125 million
FY1978	\$205 million
FY1979	\$270 million
FY1980	\$300 million

statutes directed lawyers to pool client funds held for short periods of time in interest-bearing checking accounts. The monies accrued were used to help support legal aid attorneys assisting low-income clients.

Notwithstanding outside funding, by 1990, almost 2,000 fewer legal services attorneys served low-income Americans than in 1981, when the modest funding level of “minimum access” had been briefly achieved.



The 1990s also began with small but significant funding increases. In FY1992, Congress enacted, and President Bush signed into law, a seven-percent funding increase for LSC, bringing the federal contribution to \$350 million. The Bush Administration consistently recommended that Congress continue to fund LSC, albeit at constant levels.

LSC also forged new paths to address special needs. While forty-one programs continued to serve migrant

farm-workers and their families, groundwork was laid in 1993 to expand migrant services to four additional states. LSC awarded more than ten million dollars to assist migrant workers with legal matters pertaining to wage and labor disputes, family issues, education, and housing. When the U.S. Court of Veterans Appeals found that roughly two-thirds of its appellants lacked — because most could not afford — legal representation, Congress turned to LSC for help. It earmarked \$950,000 for a new veterans assistance program that LSC would implement with technical assistance from the Court.

With the election of President Clinton and a supportive Congress, the legal services community anticipated an end to the long period of flat funding. The new Administration recommended a \$75 million increase in LSC funds for FY1994.

APPROPRIATIONS:

FY1981	\$321.3 million
FY1982	\$241 million
FY1983	\$241 million
FY1984	\$275 million

Congress followed suit and increased the FY1995 appropriation to \$415 million, the largest increase since the early years of LSC. This figure was later reduced to \$400 million.

In September 1994, in honor of LSC's 20th anniversary, President Clinton designated the last week of the month

as National Legal Services Week. The event was marked by a ceremony at the White House, hosted by First Lady Hillary Rodham Clinton, who recalled her experiences representing the poor as an LSC Board member more than a decade earlier.

With the 1994 election of a Republican-controlled Congress, the political climate changed dramatically for LSC. Some Members in the new Congress advocated the elimination of LSC. In 1995, Congress enacted legislation rescinding \$15 million of LSC's \$415 million FY1995 appropriation. The House



“I recognize there have been periods when the federal legal services program has been controversial. Much of the criticism has been unjustified. When migrant workers and other poor individuals assert their legal rights, they can offend powerful interests in society. That does not mean there is something wrong with the program; it means that it is doing its job.”

— FORMER SENATOR WARREN RUDMAN (R-NH), QUOTED IN *EQUAL JUSTICE UNDER LAW*, SPECIAL EDITION OF THE AMERICAN BAR ASSOCIATION'S UPDATE ON LAW-RELATED EDUCATION, FALL 1994

of Representatives adopted a budget that assumed LSC's funding would be cut by one-third for FY1996, two-thirds for FY1997, and eliminated thereafter. Funding was eliminated for LSC's clearinghouse, national back-up centers, and national training programs.

Rather than executing this plan, a bipartisan majority in Congress voted to preserve LSC and implemented major changes to LSC's grant delivery system, the most significant being that grants were to be awarded through a system of competition. Congress also determined that federal funds were to be used to focus on individual cases, while certain types of advocacy were no longer permitted. In order to implement its decision, Congress imposed numerous new

APPROPRIATIONS:	
FY1985	\$305 million
FY1986	\$292.4 million
FY1987	\$305.5 million
FY1988	\$305.5 million

restrictions on LSC grantees, including strict guidelines limiting the programs' use of non-LSC funding.

These new guidelines refocused the LSC delivery system on serving individual clients with particular legal needs. With the implementation of these restrictions, legal services attorneys are not permitted to initiate or participate in class action lawsuits. They may not collect court-awarded attorney's fees. Litigation on behalf of prisoners and representation of undocumented and other categories of aliens is also prohibited. Other new requirements addressed redistricting, cases involving evictions from public housing of individuals charged with or convicted of drug violations, and participation in government rulemaking or solicitation. Unlike past laws restricting the work of legal services, these provisions applied to all funds of a recipient, with very few specified exceptions.

LSC utilized the new system of grant competition to promote innovation and still higher quality in the delivery of legal services, and to foster in every state the development of a comprehensive, integrated statewide delivery system. As a

result, state-level planning and coordination of services became increasingly important. Many programs responded by using the latest technology to improve services and serve more clients. LSC continues to strongly support and encourage these efforts.

Since 1996, bipartisan support in Congress for LSC has continued to grow. LSC's current Board of Directors, President and staff have reached out to build support among Republican Members of Congress. After having its budget reduced and then held stagnant for several years, LSC finally saw its annual appropriation increased to \$300 million in FY1999.

The appropriations increase came as LSC prepared to usher in its 25th year of working to ensure equal access to justice for low-income Americans. At a July 1999 ceremony in the East Room of the White House, LSC commemorated its silver anniversary. With representative clients from across America present, President Clinton and Members of Congress from both parties congratulated LSC and spoke in support of increased funding.

NEW FUNDING SOURCES: 90s

- ◆ United Way agencies
- ◆ Private Foundations
- ◆ Private Bar
- ◆ Private Donations
- ◆ State and Local Grants and Contracts
- ◆ Older Americans Act
- ◆ IOLTA (Interest on Lawyers' Trust Accounts)

STATS:

- ◆ In 1988, one-third of people in poverty in the District of Columbia were children.
- ◆ 1987 US Poverty Population: 32.2 million
- ◆ '87 Federal Investment Per Low-Income Person: \$9.49

LOOKING BACK, MOVING FORWARD

The LSC vision of federally funded legal services seeks to bring justice to the lives of many more low-income individuals by strengthening state-based delivery systems, promoting technology that assists clients, and assuring quality and accountability through oversight of its grant recipients. LSC grounds its vision in the Constitution's call to "establish justice." This vision is devoid of social policies, political considerations, and partisan agendas. Legal Services Corporation has

"Our strength, as we look forward to these challenges, comes from the dedication, commitment and professionalism of the people who make up the legal services community — people who are not saluted often enough, but who together form a central pillar supporting our system of American justice."

JOHN P. O'HARA AND GEORGE W. WITTGRAF,
FROM "PREFACE," *LEGAL SERVICES CORPORATION ANNUAL REPORT*, 1991

refocused the federal investment in our nation's civil justice system in order to promote the rights and dignity of individuals and families. Consistent with this vision, the LSC Board, since 1997, has dedicated itself to developing a client-centered legal services system that is powered by public-private partnerships, includes multiple funding sources to leverage federal resources, and is immune to partisan political influences.

Legal services cases frequently involve fundamental issues of health, housing, and personal safety. In many instances, assistance from a legal services program has helped prevent a family from breaking apart or falling into permanent

dependency. Legal services advocates have helped children gain access to health care, education and training, and improved living conditions. They have helped poor mothers obtain child support from absent fathers. They have helped thousands of women gain protection from abuse and violence in the home. They have helped welfare recipients find childcare, job training, and employment. They have helped farm-workers and other low-wage workers improve dangerous and unhealthy working conditions and obtain the wages to which they are legally entitled. They have helped elderly people maintain their independence. And they have helped residents revitalize neighborhoods decimated by crime, joblessness, and poverty through economic development and micro-enterprise initiatives.

Legal services programs have fundamentally altered the manner in which institutions represent low-income individuals and have provided an essential link between government and private programs and their intended benefi-

STATS:

- ◆ 13 percent of U.S. population lives in poverty. — 1990 Census
- ◆ Seventy-one percent of the legal situations that low-income households face do not find their way to the judicial system.

— *As determined by a 1994 legal needs study conducted by the American Bar Association's Consortium on Legal Services and the Public.*



APPROPRIATIONS:

FY1989	\$308.6 million
FY1990	\$316.5 million
FY1991	\$328.2 million
FY1992	\$350 million

aries. LSC has served to ensure that local programs designed to benefit low-income people actually do so.

LSC Board Chairman Douglas S. Eakeley



LSC has made the justice system more responsive to the needs of low-income Americans. It has brought tens of thousands of private attorneys into the civil legal assistance system as providers of *pro bono* services. It has produced successive generations of skilled poverty lawyers, some of whom have remained in

“We arrive at our posts to find equal justice too much a dream and too little a reality for so many of our nation’s hard-working and struggling people.”

DOUGLAS S. EAKELEY, CHAIRMAN, LSC BOARD OF DIRECTORS
(SPEAKING ABOUT THE NEWLY-APPOINTED LSC BOARD OF DIRECTORS,
IN THE 1993 LEGAL SERVICES CORPORATION ANNUAL REPORT)

legal services, while others have gone on to serve as law professors, judges, government executives, and elected officials, including U.S. Senators and Representatives.

APPROPRIATIONS:

FY1993	\$357 million
FY1994	\$400 million
FY1995	\$400 million
FY1996	\$278 million

The federally-funded legal services program has promoted the development of a broad-based, diverse, civil justice system based upon the model of a public-private partnership. As the system has evolved and matured, the role of LSC has changed, yet LSC remains the cornerstone of the legal aid system — the largest source of funding, a catalyst for innovation and development, and the embodiment of the federal government’s commitment to equal justice.

Many challenges remain ahead. The resources available for legal assistance remain woefully inadequate to meet the need. Today, an estimated thirty-five million Americans live in households with incomes below the poverty level. Almost one out of every five Americans is eligible for legal services. Unfortunately, because of limited resources, local legal services programs are forced to turn away tens of thousands of people with critical legal problems. As some states continue to develop additional sources of non-LSC funding, disparities in the state level of resources continues to widen. Initiatives to increase coordination and avoid fragmentation are required as the civil legal assistance system becomes more diverse.

NEW 1996 RESTRICTIONS:

- ◆ Class actions
- ◆ Lobbying
- ◆ Certain categories of aliens
- ◆ Litigation on behalf of prisoners
- ◆ Collection of attorneys fees
- ◆ Challenges to welfare reform
- ◆ Use of non-LSC funds



Texas Rural Legal Aid provides assistance to residents of Colonias on the Texas/Mexico border

The LSC Board of Directors has adopted a strategic vision to take LSC through 2005, while producing significant improvements in the delivery of legal services along the way. LSC's two core goals remain to dramatically increase the number of Americans who can access the civil justice system and to ensure that all clients receive high-quality legal assistance.

In the years ahead, LSC will engage in a sustained effort to address issues of access, availability, and quality of client-centered legal services. The ultimate objective is to provide a full continuum of legal assistance that allocates

resources in a manner responsive to clients' legal needs. LSC recognizes that it is not enough to provide legal services to low-income individuals — the key is to engender positive results. LSC, therefore, is defining and enforcing quality expectations for client services and developing methods to evaluate the impact that they have on clients' lives.

Three principal drivers will guide LSC's strategic vision in the coming years: comprehensive, integrated state planning; enhanced utilization of technology; and close programmatic oversight.

LSC's State Planning Initiative, chartered in 1995, embodies LSC's primary strategy for increasing availability of legal services. Coordinated statewide delivery systems will help eliminate excesses and allow programs to share information

“...But the men and women who founded the Legal Services Corporation knew that educating people about legal rights they did have, was critical in the fight for equal rights; that if people did not know about their rights and could not exercise them, the fact that the Supreme Court had enshrined them was of little practical impact.”

PRESIDENT BILL CLINTON, LSC'S 25TH ANNIVERSARY CELEBRATION
AT THE WHITE HOUSE JULY 27, 1999

about approaches that work, and ones that do not. Through state planning, LSC is redoubling its efforts to provide legal services in Indian Country, to migrant workers, and to other special populations with high levels of poverty and problems accessing the justice system.

LSC President John McKay with Edith Hernandez of Chicago. Photo courtesy of the White House



APPROPRIATIONS:

FY1997	\$283 million
FY1998	\$283 million
FY1999	\$300 million

Existing and emerging technologies present opportunities for breakthroughs in the delivery of legal services. A number of LSC grantees have developed innovative programs utilizing information technology to provide more services to more clients using fewer resources than ever before. Technologically sophisticated intake, advice, and referral systems can substantially expand the number of clients receiving help. Other uses of technology include computerized and web-based self-help programs; teleconferencing to facilitate attorney representation of clients in remote

Edith Hernandez, 35, became a mother at age 16, and went on to have four more children, whom she stayed home to raise. Her husband became increasingly physically violent. After 11 years of abuse and repeated threats to kill her and her children, she contacted Legal Assistance Foundation of Chicago. With the help of her lawyer David Haracz, she obtained an order of protection, a divorce and court-ordered child support payments.

Even though her case was finished, Mr. Haracz kept in touch; he even suggested she apply for a job as a receptionist in his office so she would not have to work two jobs. After working with Legal Assistance Foundation of Chicago for two years, she was persuaded to move to the Office of State's Attorney in Cook County, Illinois. For seven years, Ms. Hernandez has worked with victims of domestic and gang-related violence as a victim witness specialist.



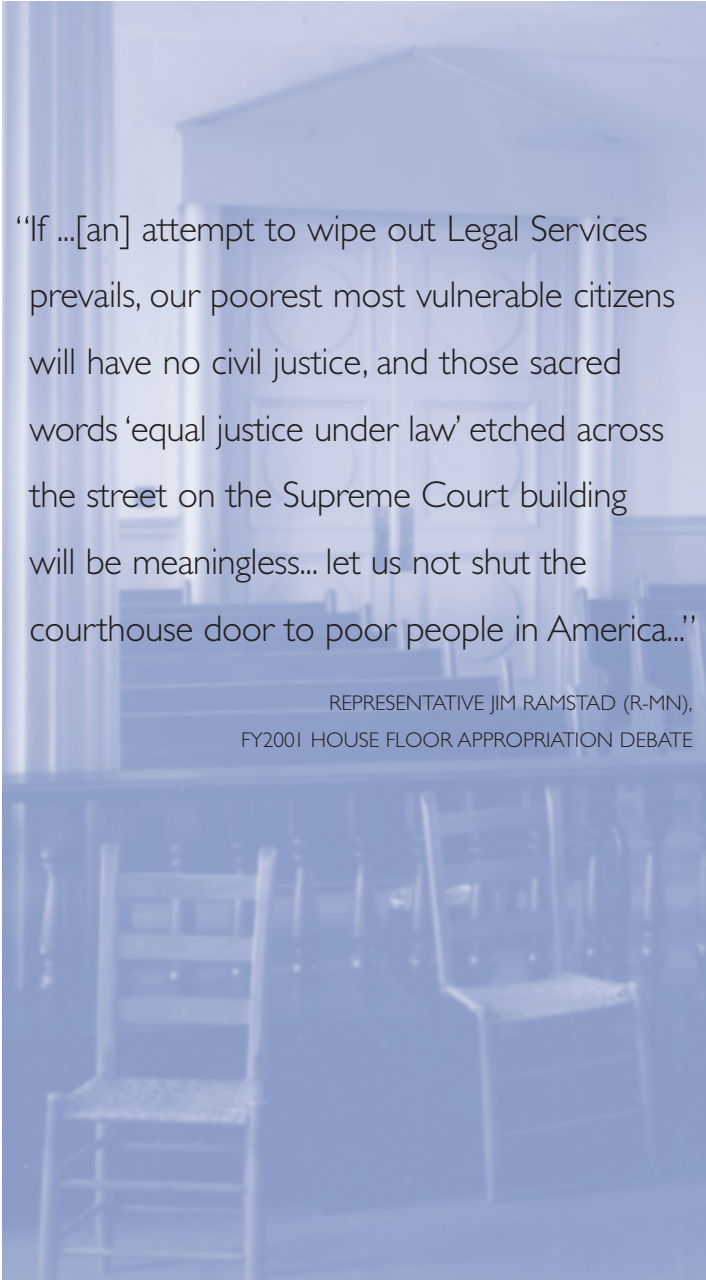
Rep. Henry Hyde (center), who became House Judiciary Chairman in 1995, meets with LSC Vice Chairman John N. Erlenborn (left) and LSC President John McKay.

areas; improved legal research and training; and expanded linkage with courts, legal services attorneys, and private *pro bono* lawyers.

Finally, LSC believes it can improve the administration of legal aid through improvements in the grants management process and regular program visits to ensure program quality and compliance. Team effort is crucial when providing legal services with

extremely limited resources. LSC and its grantees will work together to develop ways to ensure that program staff is receiving appropriate training and work is performed in a coordinated manner that yields consistent results.

The future appears boundlessly bright for legal services in America. LSC looks back with pride on a quarter century of accomplishment in its support and promotion of equal justice. Now, LSC turns forward to the next twenty-five years and beyond, preparing to face new challenges with optimism and creativity, fully committed to the meaning of the words engraved over the entrance to the United States Supreme Court: Equal Justice Under Law.



“If ...[an] attempt to wipe out Legal Services prevails, our poorest most vulnerable citizens will have no civil justice, and those sacred words ‘equal justice under law’ etched across the street on the Supreme Court building will be meaningless... let us not shut the courthouse door to poor people in America...”

REPRESENTATIVE JIM RAMSTAD (R-MN),
FY2001 HOUSE FLOOR APPROPRIATION DEBATE

INDEPENDENT AUDITOR'S REPORT

INSPECTOR GENERAL AND BOARD OF DIRECTORS LEGAL SERVICES CORPORATION

We have audited the accompanying balance sheets of Legal Services Corporation (the Corporation) as of September 30, 1999 and 1998 and the related statements of support, revenue and expenses and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 1999 and 1998 and the results of its operations and changes in its fund balance and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 26, 1999 on our consideration of the Corporation's compliance and internal controls over financial reporting.

Bert Smith and Company

November 26, 1999

Washington, D.C.

BALANCE SHEETS

September 30

1999

1998

ASSETS

Current Assets

Cash and cash equivalents (<i>Note 3</i>)	\$51,674,689	\$48,335,546
Accounts receivable	25,117	13,859
Prepaid expenses and deposits	326,375	304,723

Total current assets	52,026,181	48,654,128
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Property and Equipment

Furniture and equipment	1,909,657	1,541,301
Less accumulated depreciation and amortization	(1,054,665)	(907,689)
Net property and equipment	854,992	633,612

Total Assets	\$52,881,173	\$49,287,740
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LIABILITIES AND FUND BALANCE

Current Liabilities

Grants and contracts payable	\$48,639,453	\$45,800,504
Accounts payable	764,518	722,240
Accrued vacation and other liabilities	441,059	403,641
Deferred rent credit — current portion (<i>Note 9</i>)	190,038	190,039
Deferred revenue	22,808	8,635

Total current liabilities	50,057,876	47,631,829
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Deferred rent credit — non-current portion (<i>Note 9</i>)	316,731	506,770
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Total liabilities	50,374,607	47,125,059
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Fund Balance

Federal appropriation (<i>Notes 2 and 7</i>)		
Designated	438,231	27,646
Undesignated	1,213,343	994,653
Net investment in property and equipment	854,992	633,612

Total fund balance	2,506,566	1,655,911
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Total Liabilities and Fund Balance	\$52,881,173	\$49,287,740
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The accompanying notes are an integral part of these financial statements.

STATEMENTS OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCE

For the Years Ended September 30

1999

1998

SUPPORT AND REVENUE

Federal appropriation	\$300,000,000	\$283,000,000
Grant and revenue (<i>Note 4</i>)	850,827	1,685,329
Interest and other income	506,066	318,048
Total support and revenue	301,356,893	285,003,377

EXPENSES

Program activities:		
grant and contracts (<i>Note 5</i>)	289,976,566	276,978,750
Supporting activities:		
management and administration (<i>Notes 6 and 8</i>)	10,579,672	8,769,652
Total expenses	300,506,238	285,748,402

Excess (Deficit) of support and revenue over (under) expenses	850,655	(745,025)
Fund balance, beginning of year	1,655,911	2,400,936
Fund Balance, end of year	\$ 2,506,566	\$ 1,655,911

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30

1999

1998

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess (Deficit) of support and revenue (under) over expenses	\$ 850,655	(745,025)
Adjustments to reconcile excess (deficit) of support and revenue over (under) expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	170,815	198,076
Loss on disposal of assets	41,878	5,066
(Increase) Decrease in accounts receivables	(11,258)	15,368
(Increase) Decrease in prepaid expenses and deposits	(21,652)	(20,862)
Increase in grants and contracts payable	2,838,949	198,879
Increase in accounts payable	42,278	83,716
Increase in accrued vacation and other liabilities	37,418	117,860
Decrease in deferred rent credit	(190,039)	(190,039)
Increase (Decrease) in deferred revenue	14,173	(9,297)
Net cash provided by (used in) operating activities	3,773,217	(346,258)

CASH FLOWS USED IN INVESTING ACTIVITIES:

Purchase of fixed assets	(434,074)	(346,574)
Net increase (decrease) in cash	3,339,143	(692,832)
Cash and cash equivalents, beginning of year	48,335,546	49,028,378
Cash and cash equivalents, end of year	\$51,674,689	\$48,335,546

SUPPLEMENTAL DISCLOSURE OF NON CASH FLOW INVESTING ACTIVITIES:

Write-off of fixed assets disposed of with related accumulated depreciation of \$48,358 and \$380,446, respectively	\$ 123,074	\$ 385,513
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1

NATURE OF THE CORPORATION

The Legal Services Corporation (the Corporation) is a private nonmembership 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 the Corporation is to provide financial support to independent organizations that directly provided legal assistance in noncriminal proceedings or matters to persons financially unable to afford such counsel.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies utilized by the Corporation.

Basis of Accounting: (fund accounting)

The accounts of the Corporation are maintained on the accrual basis of accounting. To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of fund accounting whereby resources are classified for accounting and reporting purposes into funds established to their activities and objectives.

The federal appropriations fund includes amounts received and expended in furtherance of the Corporation's objective, including general operations. The property fund represents investments in property, equipment and computer software, net of accumulated depreciation and amortization. Capital assets purchases or proceeds from their sale are recorded by transfer from or to the federal appropriations fund. Separate accounts are maintained for each fund; however, for reporting purposes they are combined in the accompanying financial statements.

Federal appropriations fund balances have been stated as either designated or undesignated. Designated fund balances represent amounts which have been earmarked by the Board of Directors for continuing programs and administrative activities. Undesignated fund balances represent appropriated federal

carryover and other operating excess which are available for future use at the discretion of the Board of Directors.

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.

Support and Revenue

The federal appropriations are deemed to be earned and reported as support and revenue in the period designated by Congress, as the amounts are specifically committed to grantees. The appropriation remains available until expended.

Grant Refunds

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 generally include recoveries of disallowed costs, excess fund balances, unexpended funds on Private Attorney Involvement programs and sanctions imposed by the Corporation for failure to comply with other regulatory requirements.

Grants and Contracts to Recipients

Liabilities, expenses and revenues related to grant and contract awards are recognized when the awarding document is fully executed. Grant awards are made to recipients on a calendar year basis from appropriations received by the Corporation for its fiscal year.

Property and Equipment

Furniture and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years.

Income Taxes

The Corporation 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. The Corporation had no unrelated business income for 1999 and 1998, and accordingly, no provision for income taxes has been made in the accompanying financial statements.

NOTE 3

CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents consist of cash on deposit at financial institutions and undisbursed appropriations which constitute spending authority that remain available in the Corporation's account held by the U.S. Treasury. Cash consists of the following:

	<i>1999</i>	<i>1998</i>
Cash in Financial Institutions	\$26,505,175	\$25,519,768
Cash in U.S. Treasury	25,169,514	22,815,778
Total	\$51,674,689	\$48,335,546

NOTE 4

GRANT REVENUE

The Corporation was awarded grants from the U.S. Court of Veterans Appeals for the purpose of furnishing legal assistance to veterans. Grant revenue for the years ended September 30, 1999 and 1998 are as follows:

	<i>1999</i>	<i>1998</i>
Corporation for National Service	\$ —	\$ 886,032
U.S. Court of Veterans Appeals	850,827	785,702
Change in Deferred Revenue — Special Emergency	—	13,595
Total	\$850,827	\$1,685,329

NOTE 5

GRANT AND CONTRACTS EXPENSE

Grant funding provided to the Legal Services Corporation, pursuant to Public Law 105-119, was for basic field programs. Grant and contracts expense consists of the following:

	<i>1999</i>	<i>1998</i>
Basic field programs	\$289,000,000	\$275,455,172
U.S. Court of Veterans Appeals fund	850,827	785,702
AmeriCorps program	—	886,032
Grant from other funds	214,500	15,905
Special emergency funds	—	13,595
Grant refunds	(88,761)	(177,656)
Total	\$289,976,566	\$276,978,750

NOTE 6

MANAGEMENT AND ADMINISTRATIVE EXPENSES

Management and administrative expenses consist of the following:

	1999	1998
Personnel Compensation	\$ 6,136,806	\$5,523,699
Temporary Employee Pay	124,478	124,822
Consulting	1,157,569	769,709
Travel and Transportation	782,830	365,295
Communications	123,255	95,196
Occupancy Cost	1,252,000	1,159,007
Printing and Reproduction	35,780	35,386
Other Operating Expenses	530,006	305,828
Capital Expenditures	608,329	534,143
Subtotal	10,751,053	8,913,085
Depreciation and Amortization	170,815	198,076
Loss on Disposal of Assets	41,878	5,066
Purchase of Assets	(434,074)	(346,575)
Total	\$10,529,672	\$8,769,652

NOTE 7

FUND BALANCE

The Board of Directors through its fund allocation process, has designated \$438,231 and \$27,646 of the federal appropriations fund balance for continuing programs and administrative activities as of September 30, 1999 and 1998, respectively.

NOTE 8

RETIREMENT PLANS

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988 are participants in the Civil Service Retirements System, although they are neither officers nor employees of the federal government. The Corporation makes contributions at rates applicable to agencies of the federal government. Eligible employees may contribute up to 5% of their pretax earnings to the Federal Thrift Savings Plan.

All officers and employees hired after September 30, 1988 are ineligible for the Civil Service Retirement System, but are eligible to participate in the Corporation's pension and thrift plan, which is a tax deferred annuity plan subject to Section 403(b) of the Internal Revenue Code. Individuals can make contributions up to the maximum permitted by law. Prior to July 1, 1999, the Corporation matched the first 1% contributed by the employee, effective July 1 this percentage was increased to 2.51%. In addition, the Corporation contributes 6% of each eligible employee's salary regardless of their participation to the maximum permitted under federal income tax rules.

The Corporation's contributions to these plans for fiscal years 1999 and 1998 were \$354,422 and \$271,925, respectively. These amounts are included in supporting activities for management and administration expenses.

The Corporation also offers a tax deferred annuity savings plan for eligible employees. No contributions are made to this plan by the Corporation.

NOTE 9

COMMITMENTS AND CONTINGENCIES:

Leases

The Corporation's lease for its headquarters office space provides for increases in annual base rent based on consumer price index increases, and payment of a portion of the building operating expenses. The lease commenced on June 1, 1992 and includes two renewal options for five years each and also provided for rent abatement for the first twelve months of the lease term. Future minimum lease payments required under this lease are as follows:

	<i>1999</i>	<i>1998</i>
September 30		
2000	\$1,274,340	\$1,200,931
2001	1,274,340	1,200,931
2002	849,560	800,621
Total	\$3,398,240	\$3,202,483

Total minimum future payments have not been reduced by \$733,424 of sublease rentals to be received in the future under a noncancellable sublease.

	1999	1998
Gross rental expense	\$1,224,777	\$1,012,124
Sublease income	(200,326)	(178,488)
Net rent expense	\$1,024,451	\$ 833,636

Grants and Contracts

The Corporation receives its funding from appropriations by Congress and grants from federal agencies and, accordingly, may be subjected to audits from the respective agencies. In addition, the Corporation provides significant funding to several independent organizations which are subjected to their own independent audits and audits by the Corporation.

The Corporation's management does not expect any significant adjustments as a result of audits from federal agencies should they occur or from the audits of the subgrantee independent organizations.

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

INSPECTOR GENERAL AND BOARD OF DIRECTORS
LEGAL SERVICES CORPORATION

We have audited the financial statements of Legal Services Corporation (the Corporation) as of and for the year ended September 30, 1999, and have issued our report thereon dated November 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance: As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the

internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Corporation in a separate letter dated November 26, 1999.

This report is intended solely for the information and use of the Inspector General, the Board of Directors and management and others within the organization. However this report is a matter of public record and its distribution is not limited.

Bert Smith and Company

November 26, 1999

Washington, D.C.

LEGAL SERVICES CORPORATION 25TH ANNIVERSARY ANNUAL REPORT

WRITTEN AND PRODUCED BY

LSC'S OFFICE OF
GOVERNMENTAL RELATIONS
& PUBLIC AFFAIRS

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The Legal Services Corporation (LSC) is a private, nonprofit corporation established by Congress in 1974 to seek to ensure equal access to justice under the law for all Americans. LSC is headed by a bipartisan Board of Directors appointed by the President and confirmed by the Senate. It receives funds annually from Congress and makes grants directly to independent local programs that provide civil legal assistance to those who otherwise would be unable to afford it. In 1999 LSC funded more than 230 local programs which served every county in the nation and the U.S. territories.

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