

Legal Services Corporation

ANNUAL REPORT 2000-2001



PROGRESS IN THE NEW MILLENNIUM



Oklahoma City



LEGAL SERVICES CORPORATION

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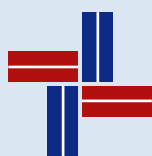
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*John McKay served as LSC president through May 2001.



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CREDITS

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LEGAL SERVICES CORPORATION 2000-2001 ANNUAL REPORT

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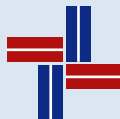
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The Legal Services Corporation (LSC) is a private, nonprofit corporation established by Congress in 1974 to seek to ensure equal access to justice under the law for all Americans. LSC is headed by a bipartisan Board of Directors appointed by the President 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 2001, LSC funded 207 local programs which served every county in the nation and the U.S. territories.

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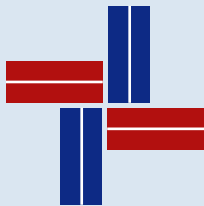
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INTRODUCTION



IN 1974, CONGRESS CHARTERED THE LEGAL SERVICES Corporation (LSC) in an effort to provide equal access to the system of justice for all Americans. Twenty-eight years later, LSC continues to promote civil justice for all, helping millions of low-income citizens solve critical, even life-threatening, legal problems.

Despite the success of LSC and its many contributions to equal justice in this country, the need for legal services is still overwhelming. More than 43 million Americans are potentially eligible for LSC-funded services. Yet because of insufficient resources, local legal services programs are forced to turn away the majority of low-income individuals who seek out their help. A benchmark legal needs study conducted in the mid-1990s by the American Bar Association concluded that 80 percent of eligible clients do not secure legal assistance when they are in serious situations in which a lawyer's advice and assistance could make a difference. Since the ABA study's release, more than 15 individual state legal needs studies have reached similar conclusions. LSC is committed to promoting a new vision of legal services that will reverse these statistics and dramatically increase the number of low-income Americans who can access the civil justice system through the provision of quality legal services.

At the close of the tenure of its longest-serving Board of Directors, LSC enjoys a level of bipartisan support unrivaled in its history. LSC has embraced its mission with resolve and purpose, determined to help as many Americans as possible gain access to the civil justice system and achieve a fair resolution to their critical legal problems.



An Enduring Legacy

The LSC Board of Directors is responsible for establishing national policy for federally funded legal services that ensures high-quality service to clients and grantees' compliance with congressional requirements.

In 2000, as a new millennium dawned and a new President took office, it appeared that the record-long tenure of LSC's bipartisan Board was finally drawing to a close. Yet the Board—its original members appointed by President Clinton in November 1993—served out the year 2001, as President Bush displayed his confidence in the direction of the national legal services program.

LSC Board members (clockwise, from upper left) F. Wm. McCalpin, Vice Chair LaVeeda M. Battle, Edna Fairbanks-Williams, Nancy Rogers (with Douglas Eakeley), Hulett H. Askew, Maria Luisa Mercado, John N. Erlenborn, John T. Broderick, Ernestine Watlington, Thomas F. Smegal, Jr., and Board Chair Eakeley.

CLIENT-CENTERED

CLIENT-CENTERED



Cumberland Trace Legal Services



Heart of Texas Legal Services



Legal Services of the Virgin Islands

IN 2001, LSC REDEDICATED ITSELF TO ITS MOST important constituency: clients. LSC's Office of Programs invested considerable time and resources in exploring how legal aid advocates can work together to create a more "client-centered" legal services system. In April 2001, LSC clients, program staff, board members, representatives from the courts, IOLTA directors, and other stakeholders convened in Hershey, Pa., for a three-day LSC conference entitled "Creating Client-Centered Communities of Justice."

Some of the issues identified at the conference: the challenges posed by a surge in Hispanic, African, and Asian client populations; the employment hurdles faced by welfare-to-work clients in an era of waning low-wage job opportunities; the challenges of single parents and grandparents raising kids; and the proliferation of predatory lending and consumer fraud against immigrants and the elderly.

For more information on LSC's commitment to clients and additional details about the Hershey conference, go online at www.rin.lsc.gov/Rinboard/Rinboard.htm



Legal Aid Foundation of Los Angeles



New Orleans Legal Assistance Corp.



Community Legal Services (Ariz.)



Heart of Texas Legal Services



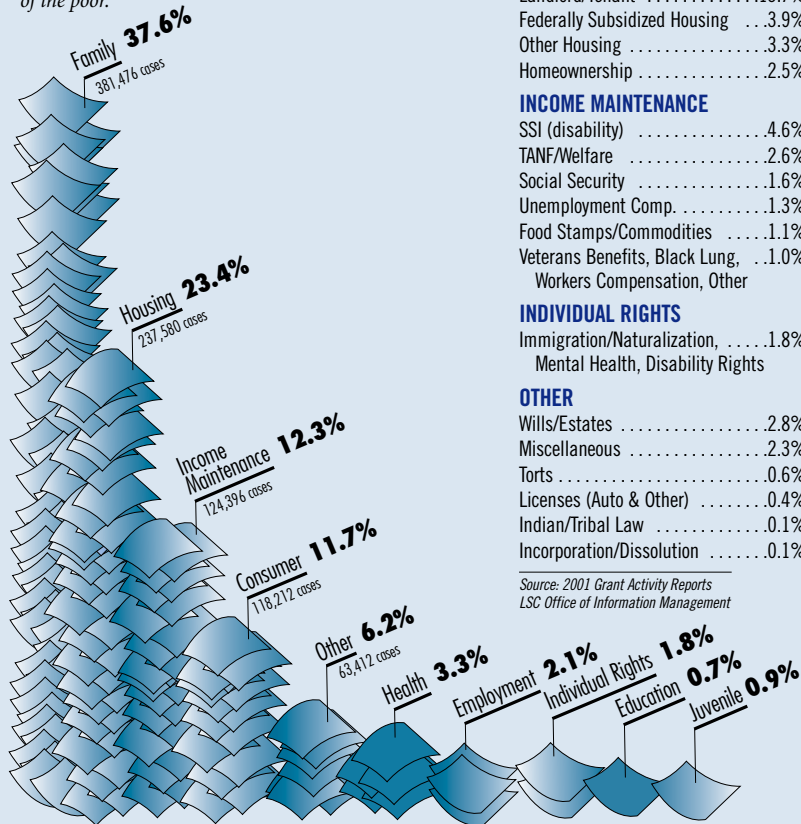
Jacksonville Area Legal Aid



Legal Services of Northeastern Wisconsin

LSC Caseloads

The official breakdown of the more than one million cases closed by LSC-funded programs in 2001 shows that federal dollars for civil legal aid are spent on the basic legal needs of the poor.



CONSUMER

Collections/Repossessions	4.2%
Bankruptcy/Debt Relief	3.8%
Credit Access, Energy, Loans,	2.4%
Public Utilities, Unfair Sales	
Practices, Other Consumer	
Contracts/Warranties	1.4%

FAMILY

Divorce/Separation	14.5%
Custody/Visitation	8.9%
Spouse Abuse	5.6%
Support	3.8%
Adoption, Name Change, Parental	3.4%
Rights Termination, Paternity,	
Support, Other Family	
Guardianship	1.4%

HOUSING

Landlord/Tenant	13.7%
Federally Subsidized Housing	3.9%
Other Housing	3.3%
Homeownership	2.5%

INCOME MAINTENANCE

SSI (disability)	4.6%
TANF/Welfare	2.6%
Social Security	1.6%
Unemployment Comp.	1.3%
Food Stamps/Commodities	1.1%
Veterans Benefits, Black Lung,	1.0%
Workers Compensation, Other	

INDIVIDUAL RIGHTS

Immigration/Naturalization,	1.8%
Mental Health, Disability Rights	

OTHER

Wills/Estates	2.8%
Miscellaneous	2.3%
Torts	0.6%
Licenses (Auto & Other)	0.4%
Indian/Tribal Law	0.1%
Incorporation/Dissolution	0.1%

Source: 2001 Grant Activity Reports
LSC Office of Information Management

BIPARTISAN SUPPORT



“I believe that the LSC can play a valuable role in ensuring that poor families are not treated unfairly and illegally by landlords, creditors, and others merely because they cannot afford adequate legal representation.”

—**GEORGE W. BUSH,**
the candidate (Fall 2000)

AT NO TIME IN RECENT HISTORY HAVE LSC AND THE national legal services community been in a stronger political position. Today, LSC enjoys broad bipartisan support. President Bush’s decision to support LSC’s budget request of \$329.3 million for Fiscal Years 2001 and 2002 are vivid examples of how LSC has dispelled old myths about the work of local legal aid offices and solidified support for the core mission of the national legal services program. Bipartisanship surrounding federally funded legal aid has extended to Congress, which in 2001 passed LSC’s full funding request without a recorded dissent, ending six years of sustained efforts to dramatically reduce LSC’s funding in committee.

LSC earned this support by demonstrating its commitment to enforce the will of Congress, whether through courtroom advocacy defending congressional restrictions or through increased oversight and regulatory activities ensuring grantee compliance with new laws and regulations. In 1996, Congress enacted fundamental change to the national legal services program, reaffirming the federal government’s commitment to providing free civil legal assistance to poor Americans while enacting a series of new restrictions governing the activities in which federal grantees may engage, either with federal or non-federal funds. LSC has made every effort to ensure that these congressional restrictions are strictly observed. LSC has not only enforced the restrictions passed by Congress, it has zealously defended their Constitutionality all the way to the U.S. Supreme Court.



“The federal government, through LSC, ensures equal access to our nation’s legal system by providing funding for civil legal assistance to low-income persons. For millions of Americans, LSC-funded legal services is the only resource available to access the justice system.”

PRESIDENT GEORGE W. BUSH (Spring 2001)

BIPARTISAN SUPPORT



Rep. Loretta Sanchez (D-CA)



Rep. Mel Watt (D-NC)

All the while, LSC has implemented bold reforms and embraced new technology to enhance its grantees' ability to provide high-quality, cost-effective legal assistance to clients.

In *Legal Services Corporation v. Velazquez*, the U.S. Supreme Court struck down, 5-4, one of the 1996 restrictions on LSC grantees that barred welfare reform challenges but left standing the remainder of the restrictions on federally funded programs. By defending restrictions that were decidedly unpopular throughout the national legal services community, LSC demonstrated it is a responsible regulatory agency committed to enforcing the will of Congress and ensuring that federal funds are utilized in the manner mandated by America's elected leaders. In December 2001, opponents of congressional restrictions on federally funded legal services filed another lawsuit in federal district

LSC Appropriations

Congressional appropriations for legal aid have not kept pace with inflation since LSC's establishment. In real dollars, the current federal investment equals roughly half of 1980 funding levels.

LSC funding shown in millions of dollars

Red indicates appropriations adjusted for inflation*

*Based on Federal Consumer Price Index (1980)



High-water mark for LSC funding. The legal services community briefly achieves its "minimum access" goal of two lawyers per 10,000 poor people.

Year	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Funding (Millions)					\$300	\$321	\$241	\$241	\$275	\$305	\$292	\$305	\$305
Adjusted for Inflation					\$300	\$291	\$205	\$199	\$218	\$233	\$219	\$221	\$212

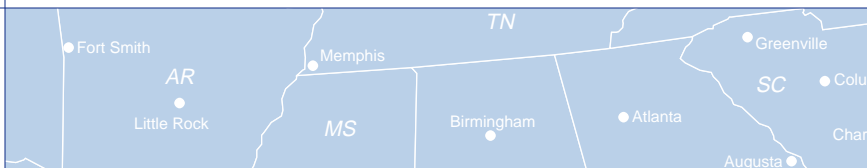


LSC came into existence in 1975 when the federal responsibility for civil legal aid passed from the Community Services Administration. LSC received its first appropriation from Congress in FY 1976 for \$91 million. Over the next four years, LSC's appropriation more than tripled as Congress phased in a national plan to fund offices serving the poor in every U.S. county.



LSC's incremental funding increases in the Reagan and Bush Sr. years cannot keep pace with inflation.

Congress cuts LSC's budget by 25 percent. Grantees close 285 offices, lay off 1,793 attorneys and 952 paralegals, and cut back on training, litigation support, and community education.



court challenging the 1996 reforms, *Dobbins v. Legal Services Corporation*. Once again, LSC stands ready to mount a vigorous defense of congressional prerogatives.

Not only has LSC gone to court to defend Congress' right to determine how federal dollars are spent on legal aid for the indigent, LSC has taken careful efforts to ensure that its grantees are following the rules set by Congress. LSC management, working with the independent Inspector General, has developed a system of effective oversight for federally funded legal aid grantees. LSC has taken strong action to ensure compliance with applicable federal law and regulations, imposing sanctions where appropriate, including termination of a grant in its entirety. LSC's Office of Compliance and Enforcement follows up on referrals from LSC's Office of the Inspector General regarding possible violations discovered through audits of local programs, which are conducted by Independent Public Accountants.



Rep. Judy Biggert (R-IL)



Rep. Lincoln Diaz-Balart (R-FL)

The election of President Clinton and a supportive Congress pave the way for largest two-year funding increase since LSC's infancy.

House leaders consider eliminating LSC outright. Part one of a three-part, phase-out plan is implemented. LSC's funding is cut by \$122 million, causing approximately 300 office closures and 900 attorney layoffs.

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
\$308	\$316	\$328	\$350	\$357	\$400	\$400	\$278	\$283	\$283	\$300	\$303	\$329
\$205	\$199	\$198	\$205	\$203	\$222	\$216	\$146	\$145	\$143	\$148	\$145	\$153

Bipartisan support for legal services builds, and Congress restores some of the funding cuts. But current funding still equals roughly half of LSC's 1980 funding in real dollars. LSC would need an appropriation of \$647 million today to match '80 dollars adjusted for inflation.



BUILDING STATE JUSTICE COMMUNITIES



Enlisting state supreme court allies like Indiana Chief Justice Randall T. Shepard has created new sources of support for legal aid.



Teresa Cosby, former assistant deputy attorney general under S.C. Gov. Jim Hodges (right), was chosen to lead the South Carolina Centers for Equal Justice. The Centers were created as part of a statewide merger in South Carolina endorsed by LSC.

RIGHT: In Denver, nearly 100 legal services advocates attend Colorado's inaugural Access to Justice Conference in 2001.

LSC HAS RADICALLY CHANGED THE LANDSCAPE OF the national legal services system through the State Planning Initiative. Since 1998, LSC has required all recipients of federal dollars to participate in a local process to develop and implement a more effective structure for delivering critical legal assistance to low-income Americans. LSC refers to this process as “building state justice communities.” State Planning requires all LSC grantees to work together with local stakeholders to develop an assessment of the strengths and weaknesses of every state civil justice system and to formulate a comprehensive plan to ensure that all clients within a state receive high-quality legal assistance. The overall goal of this effort is to achieve the highest and best use of federal funding in every state.

To date, the State Planning Initiative has resulted in significant and positive change in the delivery of legal services throughout the country. State Planning’s strongest legacy has been its success in fostering cooperation. In 1998, ten states had designated state planning bodies dedicated to strengthening legal services. Today, 36 states have such bodies, and the rest are in the process of creating one. Also central to the reform effort is the ongoing retooling of existing systems that began in 1998. Through reconfiguration, the number of grantees receiving LSC funding has decreased from 262 in 1998 to 207 in 2001. Federally funded legal services programs continue to serve every county, city, and state in the nation.





Southern Arizona Legal Aid in Tucson partners with state Attorney General Janet Napolitano (front, left) and Arizona Chief Justice Thomas Zlaket (back, right) to celebrate the program's 50th anniversary in December 2001. BELOW: Woody Bradford leads a statewide equal justice meeting in Lincoln, Neb., in June 2001.

The quality and effectiveness of advocacy have improved under State Planning, which emphasizes statewide training and cross-program advocacy. In addition, grantees now routinely partner with other service agencies to offer holistic approaches to solving client problems.

The goal of the State Planning Initiative is to develop state justice communities that will expand and improve client services. In an effort to ensure that all clients within a state, regardless of their geographic location, have equal access to high-quality legal services, local programs were asked to develop additional resources. Many programs have increased revenue through innovative grant projects and key partnerships with courts, legislatures, bar associations, and private funders. In addition, many LSC grantees have used federal dollars to hire resource development directors.



STATE PLANNING, THEN & NOW

10

Number of states, in 1998, that had planning bodies designated to strengthening legal services.

36

Number of states with such bodies in 2001, after State Planning.

58.9

Millions of dollars appropriated by state legislatures for civil legal services in 1999.

85.4

Millions of dollars appropriated by states in 2001, after LSC instructed grantees to focus on legislative outreach.

BUILDING STATE JUSTICE COMMUNITIES

These partnerships and staffing decisions have helped increase revenue through increased state appropriations, filing fee surcharges, private fundraising, bar campaigns, and grants from state and local governments. In 2001, LSC



LaVeeda Morgan Battle, John Erlenborn, and their fellow LSC Board members endorse State Planning as "LSC's primary strategy for increasing access to and availability of services throughout the United States."

Facilitator Deborah Howard (left) leads a communications panel at a workshop in Miami dedicated to promoting diversity in legal services.

OPPOSITE PAGE: Conferees at the Miami workshop brainstorm solutions to the challenges facing special client populations.

grantees received state appropriations totaling \$85.4 million, compared to just \$58.9 million in 1999. Private bar campaigns more than quadrupled their fundraising from \$5.3 million in 1997 to \$23.6 million in 2001.

Another important step in building successful and effective state justice communities is to ensure that staff

and *pro bono* attorneys receive technical assistance and education essential for the delivery of high-quality legal services. States have employed a variety of methods to



STATE PLANNING, THEN & NOW

5.3

Millions of dollars raised by private bar campaigns in 1997, before State Planning.

23.6

Millions of dollars raised by private bar campaigns after LSC instructed its grantees to seek partnerships with state bars.

0

Federal funding to implement technology in legal services offices in 1999.

11.2

Millions of technology dollars awarded by Congress in 2000 and 2001.



provide advocates with training on substantive law and skill development, providing practice manuals and related law materials, information on various developments in the law and legal strategies, and co-counsel support for less experienced staff and *pro bono* lawyers. LSC's Board of Directors has worked diligently over the past two years to simplify and consolidate LSC's rules concerning reconfiguration and State Planning. A task force was established on June 30, 2001, to review existing policies, standards, and procedures governing State Planning. The LSC Board ultimately adopted the task force's recommendation to codify reconfiguration standards and establish a review process for disputed LSC planning decisions.



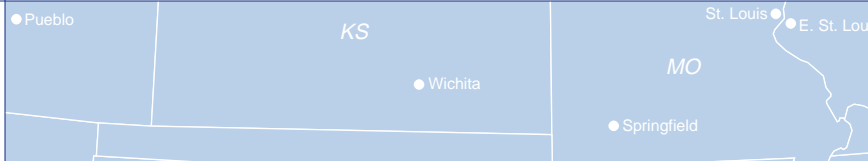
Statewide, toll-free legal advice hotlines are one of the major innovations funded by LSC to better serve clients living in geographically isolated areas.

IN 2000, LSC LAUNCHED THE TECHNOLOGY INITIATIVE Grant program (TIG), a vigorous campaign to integrate technology into the delivery of legal services. Congress allocated \$11.2 million in special technology funding in 2000 and 2001, including a record \$7 million appropriation in 2001, which LSC distributed to 55 legal aid programs in 28 states.

Since the TIG program was introduced, the legal services community has responded with inventive projects and imaginative uses for technology.

In 2000 and 2001, LSC received 154 applications from legal aid organizations nationwide and awarded 86 grants to 74 different programs. Among the projects funded by LSC grants were statewide legal services web sites, toll-free phone hotlines, sophisticated computer intake systems to screen new and prospective clients, touch-screen self-help kiosks, virtual law offices, online brief banks and pleading libraries for attorneys, and video conferencing so isolated clients can meet with attorneys hundreds of miles away.

Legal services agencies are pioneering new self-help systems that will enable *pro se* clients to access the justice system more readily when an attorney is not available. In several pilot projects, Internet-ready computers stationed in courthouses, libraries, and other public buildings offer easy access to legal information and allow users to download and fill out their own legal forms and court documents without a lawyer's assistance.



Thirty-three legal services programs have used LSC funds to implement sophisticated case management software and toll-free advice hotlines—eliminating costly duplication of efforts while giving clients an easy-to-remember, toll-free number to call for help. To serve large and isolated service areas, LSC has awarded 15 innovation grants for initiatives such as video conferencing for rural clients and voice-over internet protocols to reduce long-distance phone costs. In addition, 26 states were preparing to launch statewide legal services web sites created with LSC funds by the end of 2002. Each site will be uniquely tailored to the individual state and client community it will serve. The sites will provide links to other local providers and offer a range of self-help materials for self-represented litigants. In partnership with two web site developers, Probono.net and Kaivo Software Inc., the legal aid community now has a choice between two standardized web site templates that can easily be exported from state to state.



“I-CAN kiosks” allow California clients to solve their own legal problems with an easy-to-understand, touch-screen system offered in three languages. LSC awarded more than a half-million dollars to Legal Aid Society of Orange County in 2000 and 2001 to pioneer the unique self-help technology.

In California, the Legal Aid Society of Orange County’s Interactive Community Assistance Network (I-CAN!)—allows clients to electronically format and file court documents dealing with domestic violence restraining orders and child custody. The *pro se* system is designed to help clients navigate the complex legal system in a way that does not require them to have any legal background or computing



experience. Procedures are described clearly and concisely in a familiar, conversational style in English, Spanish, or Vietnamese, which removes educational and language barriers to accessing civil justice. The system is expandable and could eventually be made available statewide and even nationally.

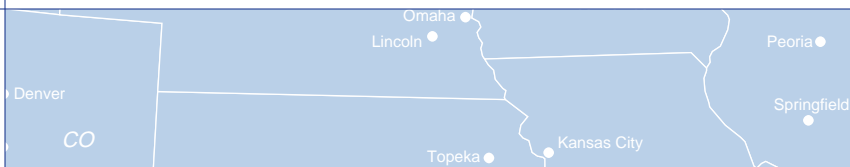
South Carolina, meanwhile, is implementing a model intake system accessible from virtually the entire state.



LSC was joined by several members of Congress to announce the most innovative TIG grants. In 2001, a bipartisan collection of political leaders left Washington, D.C., to return home and deliver the good news to their constituents at LSC-sponsored news conferences. Among them were Senator Maria Cantwell (D-WA) and Reps. Vic Snyder (D-AR), Julia Carson (D-IN), Judy Biggert (R-IL), and Kenny Hulshof (R-MO).

With a \$500,000 grant from LSC, the South Carolina Centers for Equal Justice (in cooperation with Appleseed Justice Center and 47 other agencies) is establishing “virtual law” offices throughout the state. These offices—housed in churches, elementary schools, libraries and homeless shelters—will allow real-time video conferencing between staff and clients. They also will provide legal forms for *pro se* litigants. Each South Carolina county ultimately will have at least one virtual law terminal, with accompanying support staff available to assist local residents seeking help.

In an effort to ease the transition to technologically proficient offices, LSC has chartered the National Technology Assistance Project (NTAP). Set up to help programs implement a wide array of technology projects, NTAP provides technical assistance to programs by phone and makes available “hi-tech mentors” who can help design, trou-



bleshoot, and implement TIG projects. NTAP also serves as a forum for legal services leaders to discuss and share their ideas and initiatives, avoiding costly investments



in ineffective technology. By holding regular workshops and training sessions, NTAP increases communication among programs and facilitates the replication of effective technologies.

The Ohio Statewide Legal Services Web Site is a national model of how the Internet can help serve more clients and foster involvement of more advocates. The site includes a directory of free and low-cost legal assistance providers searchable by city, county, and zip code; a library of legal information in areas such as housing, family, consumer, health care and education law; and links to advocacy groups and state and federal agencies and statutes. The web site also provides a listing of job opportunities in public interest law in Ohio, as well as information for pro bono attorneys interested in volunteering their time. The site features an online interactive community for those who provide civil legal services to low-income Ohioans. More than 500 legal services staff members statewide can participate in a collaborative network of information-sharing designed to centralize legal information and expertise on poverty law issues in Ohio.

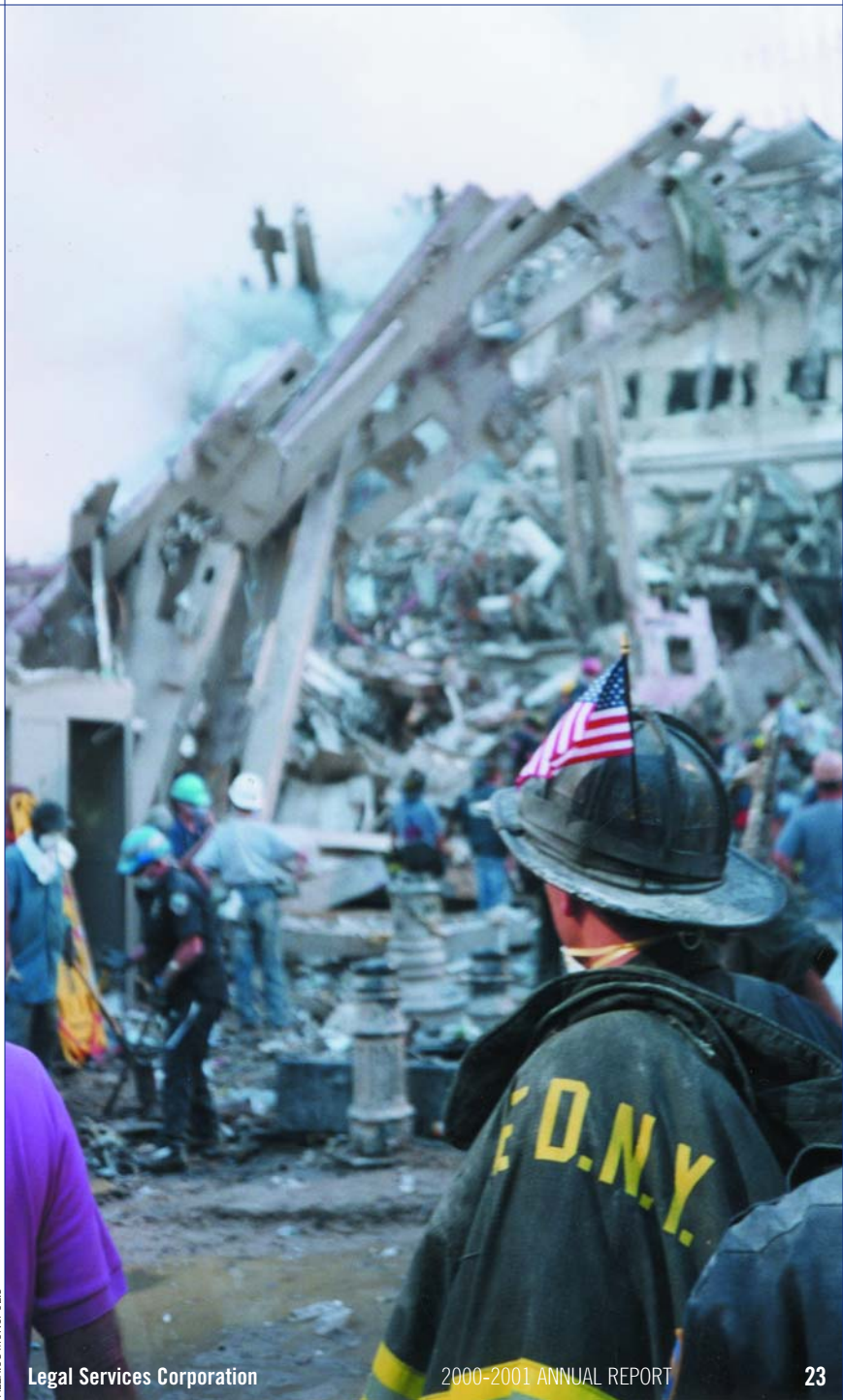
LSC took a big step toward bridging the digital divide for the Navajo and Hopi Nations, awarding DNA-People's Legal Services a quarter-million dollars to use computers to inform Native Americans in Arizona, New Mexico, and Utah of their legal rights.

RESPONDING TO TERROR

Firefighters helped rescue victims of September 11, while those whose jobs and financial security were threatened turned to lawyers for help. "It's as important as pulling debris, helping people rebuild their lives," says Andrew Martin of the New York City Bar.

IN THE MIDST OF IMPLEMENTING NEW REFORMS, the national legal services community was suddenly forced to refocus its attention in the aftermath of September 11, 2001. The terrorist attacks on the World Trade Center and the Pentagon heralded a host of legal problems for low-income clients in and around New York City and Washington, D.C. Not only did grieving families need help obtaining death certificates and securing vital government benefits, many indirect victims sought out legal aid for help after losing businesses and jobs as a result of the attacks. With one of its subgrantee's offices located just blocks from Ground Zero, Legal Services of New York (LSNY) helped train more than 1,000 volunteer attorneys to help victims and their families after 9/11. LSC also provided funding for two Web-based resources used by LSNY to help victims find answers to legal problems. At www.lawhelp.org, LSNY posted 20 different documents to help clients determine eligibility for social security survivor benefits, locate housing agencies, obtain emergency financial assistance, file for unemployment benefits and defend against eviction actions until government benefits and charity resources could be distributed. At www.probono.net, advocates could download the "Helping Handbook: Legal Resources for Families and Victims of the World Trade Center Disaster."

In Virginia, Legal Services of Northern Virginia (LSNV) created a Nine-Eleven response team to assist victims of the Pentagon attack as well as secondary victims such as airport personnel and cab drivers who lost their jobs as a result of



RESPONDING TO TERROR

RESPONDING TO TERROR

Reagan National Airport's temporary closing. LSNV also offered clients help in applying for rent assistance, getting medical care, filing for bankruptcy, and paying off debts.

While New York and Virginia's legal services communities were the first to be confronted with the repercussions of 9/11, programs in other states soon got involved as well. In Portland, Pine Tree Legal Assistance (PTLA) responded to a race-related backlash set off by September 11. PTLA hosted a variety of anti-discrimination programs in the Greater Portland area, which has a sizable multiethnic population. The program offered joint training sessions and outreach workshops with the public school system's multicultural office. In downstate Illinois, Prairie State Legal Services (PSLS) helped members of the National Guard and their families secure protection under the Soldiers and Sailors Relief Act in addition to assisting in the preparation of wills, powers of attorney, and temporary custody orders. PSLS also educated National Guard members on how to apply for reduced rates on mortgages. "We're sort of like an ambulance," PSLS Executive Director Joe Dailing says. "You don't always need it, but you want it there when you do."

"We're sort of like an ambulance. You don't always need it, but you want it there when you do."



—Joe Dailing, PRAIRIE STATE LEGAL SERVICES DIRECTOR

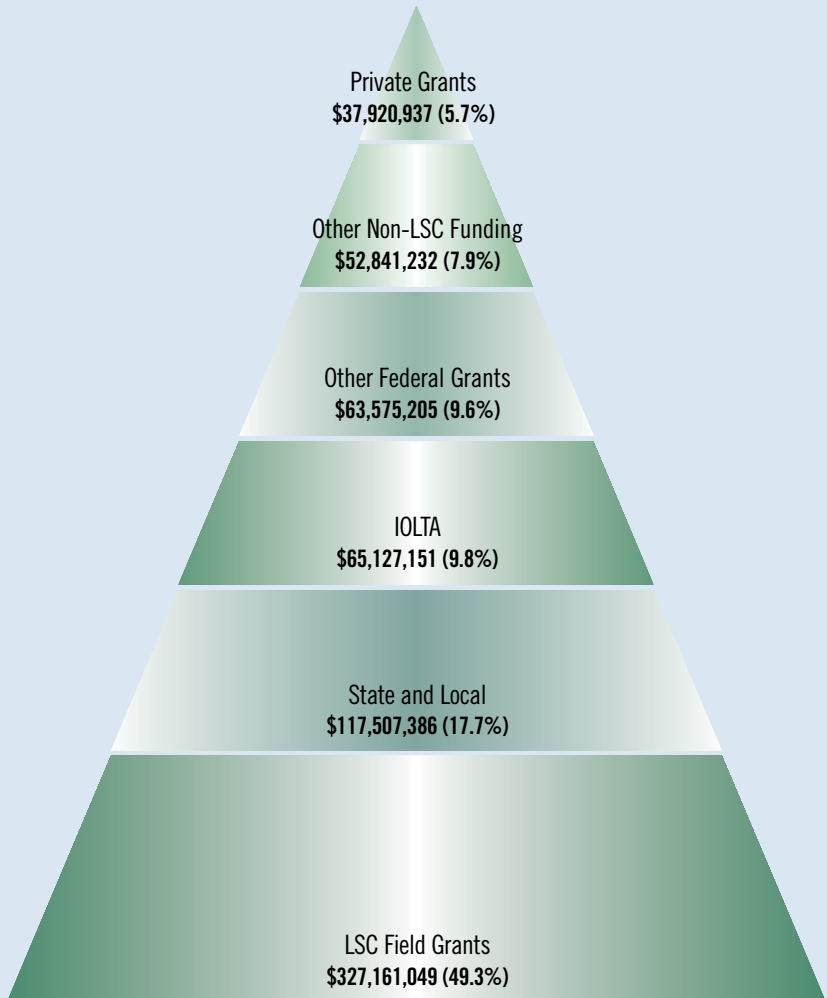


SEAN DRISCOLL

CONGRESS ESTABLISHED THE LEGAL SERVICES Corporation “to provide equal access to the system of justice in our Nation for individuals who seek redress of grievances,” according to the LSC Act of 1974. Almost a quarter century later, LSC established the State Planning Initiative to assist the tens of thousands of low-income Americans still being denied access to civil justice. Before State Planning, little consideration was paid to whether the national legal services community had adapted to meet the needs of its clients over time. Today, advocates are utilizing new technology, forging new partnerships, and implementing broad institutional reforms to help more low-income Americans obtain legal assistance. Twenty-seven years after its founding, LSC has been transformed from a mere funding agency into a reformer and equity partner capable of cultivating bipartisan support and effecting large-scale change.

FUNDING FOR THE NATIONAL LEGAL SERVICES SYSTEM, 2001

(federal and non-federal sources)



SOURCE: LSC Office of Information Management

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of Legal Services Corporation (the Corporation) as of September 30, 2001 and the related statements of support, revenue and expenses and changes in fund balance, and cash flows for the year 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 audit. The financial statements of the Corporation as of September 30, 2000 were audited by other auditors whose report dated November 23, 2000, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides 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, 2001 and the results of its operations and changes in its fund balance and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2001 on our consideration of the Corporation's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

M.D. Oppenheim & Co.
November 30, 2001
Silver Spring, Maryland

BALANCE SHEETS

September 30	2001	2000
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents (Note 3)	\$63,286,101	\$54,512,955
Due from employees	20,420	20,331
Prepaid expenses and deposits	368,659	315,069
Total current assets	63,675,180	54,848,355
<i>Property and equipment</i>		
Property and equipment	2,369,064	2,289,739
Less accumulated depreciation and amortization	(1,564,486)	(1,198,150)
Net property and equipment	804,578	1,091,589
TOTAL ASSETS	\$64,479,758	\$55,939,944
LIABILITIES AND FUND BALANCE		
<i>Current liabilities</i>		
Grants and contracts payable	\$56,192,751	\$50,823,681
Accounts payable	450,034	489,482
Accrued vacation and other liabilities	570,045	611,375
Deferred rent credit – current portion (Note 10)	126,692	190,039
Deferred revenue	4,941,337	1,599,831
Total current liabilities	62,280,859	53,714,408
Deferred rent credit – non-current portion (Note 10)	-0-	126,692
TOTAL LIABILITIES	62,280,859	53,841,100
<i>Fund balance</i>		
Federal appropriations (Notes 2 and 8)		
Designated	140,881	153,767
Undesignated	1,253,440	853,488
Net investment in property and equipment	804,578	1,091,589
Total fund balance	2,198,899	2,098,844
TOTAL LIABILITIES AND FUND BALANCE	\$64,479,758	\$55,939,944

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

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

YEARS ENDED SEPTEMBER 30,	2001	2000
SUPPORT AND REVENUE		
Federal appropriations	\$329,274,000	\$303,841,000
Less: change in deferred revenue	(3,320,200)	(1,553,014)
Grant revenue (Note 5)	873,696	885,991
Interest and other income	298,977	388,520
TOTAL SUPPORT AND REVENUE	327,126,473	303,562,497

EXPENSES

Program activities:		
Grant and contracts (Note 6)	313,884,095	292,214,190
Supporting activities:		
Management and administration (Notes 7)	13,142,323	11,756,029
Total expenses	327,026,418	303,970,219
Excess (deficit) of support and revenue over (under) expenses	100,055	(407,722)
Fund balance, beginning of year	2,098,844	2,506,566
Fund balance, end of year	\$2,198,899	\$2,098,844

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

STATEMENTS OF CASH FLOWS

For the YEARS ENDED SEPTEMBER 30, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficit) of support and revenue		
(under) over expenses	\$ 100,055	\$ (407,722)
Adjustments to reconcile excess (deficit)		
of support and revenue over (under) expenses		
to net cash provided by (used in)		
operating activities:		
Depreciation and amortization	526,610	158,200
Loss on disposal of assets	7,309	4,323
(Increase) decrease in accounts receivables	(90)	4,786
(Increase) decrease in prepaid expenses and deposits	(53,590)	11,306
Increase in grants and contracts payables	5,369,070	2,184,228
Decrease in accounts payable	(39,448)	(275,036)
Decrease in accrued vacation and other liabilities	(41,330)	170,316
Decrease in deferred rent credit	(190,039)	(190,039)
Increase (decrease) in deferred revenue	3,341,506	1,577,024
Net cash provided by operating activities	9,020,053	3,237,386
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of fixed assets	(246,907)	(399,120)
Net increase in cash	8,773,146	2,838,266
Cash and cash equivalents, beginning of year	54,512,955	51,674,689
Cash and cash equivalents, end of year	\$ 63,286,101	\$ 54,512,955
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INVESTING ACTIVITIES:		
Write-off of fixed assets disposed of with related		
accumulated depreciation of \$135,446 and		
\$14,714, respectively	\$ 167,583	\$ 19,037

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF THE CORPORATION

The Legal Services Corporation (the Corporation) 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 the Corporation is to provide financial support to independent organizations that directly provided legal assistance in non-criminal 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 purchased 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 that have been earmarked by the Board of Directors for continuing programs and administrative activities. Undesignated

NOTES TO THE FINANCIAL STATEMENTS

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 reported as support and revenue in the period expended. 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:

Property 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2001 and 2000, and accordingly, no provision for income taxes has been made in the accompanying financial statements.

Concentration of Revenue:

The corporation receives substantially all of its revenue from a direct federal appropriation.

Concentration of Credit Risk:

During the year, the cash balances in some bank accounts exceeded the \$100,000 limit insured by the Federal Deposit Insurance Corporation. Management believes any risk associated with this is minimal.

GASB No. 34 - Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34—*Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*. This statement is effective for governments with revenues of \$100 million or more for periods beginning after June 15, 2001. Therefore, the Corporation plans to adopt this statement beginning with its FY 2002 financial statements. The primary effect of this statement is to modify the form of the financial statement presentation and to provide for additional information. The statement requires the restatement of prior periods where adjustments to prior periods are necessary to comply with this statement. If restatement of prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning fund balance.

NOTES TO THE 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:

	2001	2000
Cash in financial institutions	\$ 26,187,479	\$ 26,376,846
Cash in U.S. Treasury	37,098,622	28,136,109
Total	\$ 63,286,101	\$ 54,512,955

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2001 and 2000 as follows:

	2001	2000
Furniture and equipment	\$1,842,063	\$1,793,500
Software	230,881	200,119
Leasehold improvements	296,120	296,120
Subtotal	2,369,064	2,289,739
Less: Accumulated depreciation	(1,564,486)	(1,198,150)
Total	\$804,578	\$1,091,589

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – 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, 2001 and 2000 are \$ 873,696 and \$ 885,991, respectively.

NOTE 6 – GRANT AND CONTRACTS EXPENSE

Grant funding provided to the Legal Services Corporation, pursuant to Public Law 106-553, was for basic field programs. Grant and contracts expense consists of the following:

	2001	2000
Basic field programs	\$309,221,790	\$288,607,360
U.S. Court of Veterans Appeals fund	873,696	\$885,991
Technology Initiatives	3,760,609	2,696,986
Grant from other funds	28,000	51,500
Grant refunds/recoveries	-0-	(27,647)
Total	\$313,884,095	\$292,214,190

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – MANAGEMENT AND ADMINISTRATIVE EXPENSES

Management and administrative expenses consist of the following:

	2001	2000
Personnel compensation	\$8,297,942	\$7,179,855
Temporary employee pay	168,391	186,010
Consulting	1,171,490	1,497,943
Travel and transportation	888,142	826,318
Communications	147,816	133,653
Occupancy cost	1,307,449	1,296,518
Printing and reproduction	99,832	71,767
Other operating expenses	507,102	457,166
Capital expenditures	267,147	343,396
Subtotal	12,855,311	11,992,626
Depreciation and amortization	526,610	158,200
Loss on disposal of assets	7,309	4,323
Purchase of assets	(246,907)	(399,120)
Total	13,142,323	11,756,029

NOTE 8 – FUND BALANCE

The Board of Directors through its fund allocation process, has designated \$140,881 and \$153,767 of the federal appropriations fund balance for continuing programs and administrative activities as of September 30, 2001 and 2000, respectively.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – 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 (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). The Corporation makes 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.

The excess of total pension expense over the amount contributed by the Corporation and by Corporation employees represents the amount which must be financed directly by OPM. The Corporation does not recognize in its financial statements these excess amounts as they are deemed to be immaterial.

Several employees also participate in the Federal Employees Health Benefits plan (FEHB), also administered by the OPM. The Corporation pays the cost of current employees. Post-retirement benefits are paid for by the OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material.

The Corporation does not report in its financial statements CSRS or FEHB assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

NOTES TO THE FINANCIAL STATEMENTS

Eligible employees may contribute up to 5% of their pretax earnings to the Federal Thrift Savings Plan. Also, 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 2001 and 2000 were \$540,206 and \$454,626, 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 10 – LEASES

Operating 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 also provided for rent abatement for the first twelve months of the lease term. This deferred rent credit is amortized over the life of the original lease. The lease was amended in November

NOTES TO THE FINANCIAL STATEMENTS

2001 to extend it through May 2007. Future minimum lease payments required under this lease are as follows:

September 30,

2002	\$ 1,031,320
2003	1,433,415
2004	1,462,824
2005	1,492,767
2006	1,523,379
2007 and thereafter	1,029,310
Total	\$ 7,973,015

The Corporation has termination rights under the lease at any time after May 2003 if certain conditions are met, and providing nine months notice.

Total minimum future payments have not been reduced by \$137,584 of sublease rentals to be received in the future under a non-cancelable sublease.

	2001	2000
Gross rental expense	\$1,330,265	\$1,310,391
Adjustment for rent deposit	(250)	-0-
Deferred rent expense	(190,039)	(190,039)
Sublease income	(203,839)	(200,827)
Net rent expense	\$ 936,137	\$ 919,525

Subleases:

The Corporation's sublease of its headquarters office space provides for increases in annual base rent of 1.5%, and payment of any excess operating expenses or real estate taxes. The lease commenced on June 3, 1996 and expires in May 2002. Future minimum rentals as of September 30, 2001 are \$120,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – CONTINGENCIES

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.

Claims:

During 1999, charges were filed with the District of Columbia Office of Human Rights against the Corporation by three employees alleging that LSC engaged in discriminatory employment practices. The claims request damages of \$2 million. Management has indicated it plans to vigorously contest these charges. The Corporation believes it has not violated any laws and that any loss would be substantially below the \$2 million. No amounts have been recorded in the financial statements for this contingent liability.

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Legal Services Corporation (the Corporation) as of and for the year ended September 30, 2001, and have issued our report thereon dated November 30, 2001. We conducted our audit 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.

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:

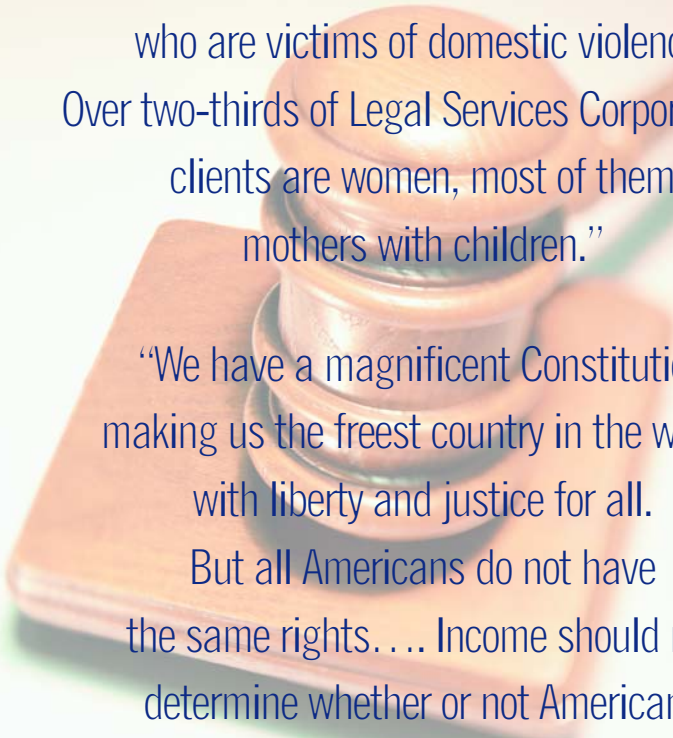
In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal con-

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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 30, 2001.

This report is intended solely for the information and use of the Acting 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.

*M.D. Oppenheim & Co.
November 30, 2001
Silver Spring, Maryland*



“Legal Services Corporation-funded programs are the nation’s primary source of legal assistance for low-income women who are victims of domestic violence. Over two-thirds of Legal Services Corporation’s clients are women, most of them mothers with children.”

“We have a magnificent Constitution making us the freest country in the world, with liberty and justice for all. But all Americans do not have the same rights. . . . Income should not determine whether or not Americans have access to the civil justice system.”

—U.S. Rep. Nancy Pelosi (D-CA)




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