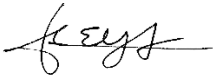




MEMORANDUM

TO: Board of Directors
Legal Services Corporation

FROM: Thomas E. Yatsco
Inspector General 

SUBJECT: Transmittal of the Fiscal Year 2025 Financial Statement Audit Report

DATE: June 23, 2026

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CLA) to audit the financial statements of the Legal Services Corporation (LSC) as of and for the fiscal year ended September 30, 2025. The contract required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, as well as the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

CLA's Independent Auditor's Report on the Financial Statements, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance and Other Matters were dated June 9, 2026. The OIG received the final reports from the Independent Auditor on June 16, 2026.

In its Independent Auditor's Report on the Financial Statements, CLA reported that LSC's financial statements fairly presented, in all material respects, the financial position of LSC as of September 30, 2025, and the related statement of activities and changes in net assets, cash flows, and functional expenses for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CLA's Independent Auditor's Report on the Financial Statements and Independent Auditor's Report on Compliance with Laws and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

CLA's Independent Auditor's Report on Internal Control Over Financial Reporting reported that the results of their tests disclosed a deficiency in internal control, considered to be a material weakness related to the restatement of interest income.

The OIG reviewed the audit reports from CLA and related audit documentation and inquired of their representatives. The OIG's review disclosed no instances in which CLA did not comply, in all material respects, with *Government Auditing Standards*. Our review, as differentiated from an audit of the financial statements in accordance with *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on LSC's financial statements, conclusions about compliance with applicable laws and regulations, or the effectiveness of internal controls. CLA is responsible for the attached audit reports, dated June 9, 2026, and the conclusions expressed therein.

Attachment

cc: Ronald Flagg, President
Deborah Moore, Chief Financial Officer and Treasurer

LEGAL SERVICES CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2025 AND 2024



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

**LEGAL SERVICES CORPORATION
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2025 AND 2024**

| | |
|--|-----------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 4 |
| STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS | 5 |
| STATEMENTS OF FUNCTIONAL EXPENSES | 6 |
| STATEMENTS OF CASH FLOWS | 7 |
| NOTES TO FINANCIAL STATEMENTS | 8 |
| INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 17 |
| SCHEDULE OF FINDINGS AND RESPONSES | 19 |



INDEPENDENT AUDITORS' REPORT

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Legal Services Corporation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2025 and 2024, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Legal Services Corporation, as of September 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legal Services Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter Regarding Restatement of Prior Year Financial Statements

As discussed in Note 9 to the financial statements, Legal Services Corporation restated its financial statements as of September 30, 2024. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Services Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

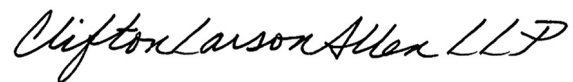
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legal Services Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legal Services Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Inspector General and Board of Directors
Legal Services Corporation

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, June 9, 2026, on our consideration of Legal Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Legal Services Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Services Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Columbia, Maryland
June 9, 2026

LEGAL SERVICES CORPORATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2025 AND 2024

| | 2025 | (As Restated) 2024 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 179,265,218 | \$ 185,169,473 |
| Accounts Receivable | 34,530 | 871,380 |
| Grant Advances | - | 2,279,452 |
| Grants and Contributions Receivable, Net | 655,193 | 1,458,740 |
| Prepaid Expenses and Other Assets | 837,186 | 795,232 |
| Property and Equipment, Net | 6,779,667 | 138,602 |
| Operating Lease Right-of-Use Asset | 20,478,433 | - |
| | <u>\$ 208,050,227</u> | <u>\$ 190,712,879</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Grants Payable | \$ 89,284,443 | \$ 87,145,443 |
| Accounts Payable and Accrued Expenses | 499,372 | 978,836 |
| Accrued Payroll and Other Payroll Liabilities | 3,275,840 | 3,359,066 |
| Deferred Revenue | 46,980 | 99,275 |
| Operating Lease Liabilities | 28,351,451 | - |
| Other Liabilities | 63,125 | 58,204 |
| Total Liabilities | <u>121,521,211</u> | <u>91,640,824</u> |
| NET ASSETS | | |
| Without Donor Restrictions | 35,516,039 | 30,651,098 |
| With Donor Restrictions | 51,012,977 | 68,420,957 |
| Total Net Assets | <u>86,529,016</u> | <u>99,072,055</u> |
| Total Liabilities and Net Assets | <u>\$ 208,050,227</u> | <u>\$ 190,712,879</u> |

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2025 AND 2024

| | 2025 | | | 2024 (As Restated) | | |
|---|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | | | | |
| Federal Appropriations | \$ 31,900,000 | \$ 531,100,000 | \$ 563,000,000 | \$ 31,900,000 | \$ 531,100,000 | \$ 563,000,000 |
| Contributions and Other Income | 1,033,908 | 612,960 | 1,646,868 | 2,102,023 | 637,373 | 2,739,396 |
| Investment Income | 7,466,771 | 105,355 | 7,572,126 | 10,163,685 | 118,172 | 10,281,857 |
| Conference Revenue | 555,161 | 55,777 | 610,938 | 1,115,749 | - | 1,115,749 |
| In-Kind Contributions | 618,215 | - | 618,215 | 168,750 | - | 168,750 |
| Net Assets Released from Restriction | 549,282,072 | (549,282,072) | - | 539,065,372 | (539,065,372) | - |
| Total Support and Revenue | 590,856,127 | (17,407,980) | 573,448,147 | 584,515,579 | (7,209,827) | 577,305,752 |
| EXPENSES | | | | | | |
| Program Services: | | | | | | |
| Grants Programs | 568,019,724 | - | 568,019,724 | 557,673,025 | - | 557,673,025 |
| Total Program Services | 568,019,724 | - | 568,019,724 | 557,673,025 | - | 557,673,025 |
| Supporting Services: | | | | | | |
| Management and Grant Oversight | 10,030,709 | - | 10,030,709 | 11,681,120 | - | 11,681,120 |
| Office of Inspector General | 7,349,772 | - | 7,349,772 | 7,204,493 | - | 7,204,493 |
| Fundraising | 590,981 | - | 590,981 | 608,299 | - | 608,299 |
| Total Supporting Services | 17,971,462 | - | 17,971,462 | 19,493,912 | - | 19,493,912 |
| Total Expenses | 585,991,186 | - | 585,991,186 | 577,166,937 | - | 577,166,937 |
| CHANGE IN NET ASSETS | 4,864,941 | (17,407,980) | (12,543,039) | 7,348,642 | (7,209,827) | 138,815 |
| Net Assets - Beginning of the Year, As Previously Reported | 30,651,098 | 68,420,957 | 99,072,055 | 15,495,690 | 83,437,550 | 98,933,240 |
| Restatement of Prior Period Net Assets | - | - | - | 7,806,766 | (7,806,766) | - |
| Net Assets - Beginning of the Year, As Restated | 30,651,098 | 68,420,957 | 99,072,055 | 23,302,456 | 75,630,784 | 98,933,240 |
| NET ASSETS - END OF YEAR | <u>\$ 35,516,039</u> | <u>\$ 51,012,977</u> | <u>\$ 86,529,016</u> | <u>\$ 30,651,098</u> | <u>\$ 68,420,957</u> | <u>\$ 99,072,055</u> |

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2025 AND 2024

| | Program Services | Supporting Services | | | | 2025 Total |
|---------------------------|-----------------------|--------------------------------------|-----------------------------------|-------------------|------------------------------|-----------------------|
| | Grant Programs | Management and Grant Oversight | Office of Inspector General | Fundraising | Total Supporting Services | |
| Compensation and Benefits | \$ 15,999,350 | \$ 7,153,855 | \$ 5,651,437 | \$ 513,331 | \$ 13,318,623 | \$ 29,317,973 |
| Professional Fees | 1,164,933 | 1,116,132 | 633,953 | 3,505 | 1,753,590 | 2,918,523 |
| Travel | 1,093,288 | 371,415 | 79,111 | 5,220 | 455,746 | 1,549,034 |
| Technology | 914,289 | 356,860 | 292,633 | 17,175 | 666,668 | 1,580,957 |
| Occupancy | 1,086,651 | 667,903 | 365,854 | 32,101 | 1,065,858 | 2,152,509 |
| Other Expenses | 431,339 | 364,544 | 326,784 | 19,649 | 710,977 | 1,142,316 |
| Grants | 547,329,874 | - | - | - | - | 547,329,874 |
| Total Expenses | \$ 568,019,724 | \$ 10,030,709 | \$ 7,349,772 | \$ 590,981 | \$ 17,971,462 | \$ 585,991,186 |
| | | | | | | |
| | Program Services | Supporting Services | | | | 2024 Total |
| | Grant Programs | Management and Grant Oversight | Office of Inspector General | Fundraising | Total Supporting Services | |
| Compensation and Benefits | \$ 15,041,758 | \$ 7,845,313 | \$ 5,389,599 | \$ 415,408 | \$ 13,650,320 | \$ 28,692,078 |
| Professional Fees | 873,195 | 1,899,595 | 784,388 | 136,336 | 2,820,319 | 3,693,514 |
| Travel | 1,546,428 | 392,578 | 89,388 | 4,717 | 486,683 | 2,033,111 |
| Technology | 740,752 | 468,444 | 259,964 | 14,352 | 742,760 | 1,483,512 |
| Occupancy | 1,116,183 | 752,132 | 396,010 | 30,313 | 1,178,455 | 2,294,638 |
| Other Expenses | 258,307 | 323,058 | 285,144 | 7,173 | 615,375 | 873,682 |
| Grants | 538,096,402 | - | - | - | - | 538,096,402 |
| Total Expenses | \$ 557,673,025 | \$ 11,681,120 | \$ 7,204,493 | \$ 608,299 | \$ 19,493,912 | \$ 577,166,937 |

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2025 AND 2024

| | 2025 | 2024 |
|---|-----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ (12,543,039) | \$ 138,815 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 626,141 | 202,439 |
| Loss on Disposal of Assets | - | 63,167 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 836,850 | (741,384) |
| Grant Advances | 2,279,452 | (2,139,901) |
| Prepaid Expenses and Other Assets | (41,954) | (37,089) |
| Grants and Contributions Receivable, Net | 803,547 | (433,151) |
| Grants Payable | 2,139,000 | 42,649,362 |
| Accounts Payable and Accrued Expenses | (479,464) | 547,499 |
| Accrued Payroll and Other Payroll Liabilities | (83,226) | 1,022,136 |
| Deferred Revenue | (52,295) | 29,372 |
| Operating Lease Liabilities | 7,873,018 | - |
| Other Liabilities | 4,921 | - |
| Net Cash Provided by Operating Activities | 1,362,951 | 41,301,265 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of Property and Equipment | (7,267,206) | (13,210) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (5,904,255) | 41,288,055 |
| Cash and Cash Equivalents - Beginning of Year | 185,169,473 | 143,881,418 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 179,265,218 | \$ 185,169,473 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES | | |
| Right-of-Use Assets Received in Exchange for Operating Leases | \$ 21,224,041 | \$ - |

See accompanying Notes to Financial Statements.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 1 ORGANIZATION AND PURPOSE

Legal Services Corporation (LSC, we, us, our) is a nonprofit corporation incorporated in the District of Columbia. LSC was established by Congress under the Legal Services Corporation Act of 1974, (Public Law 93-355), subsequently amended in 1977 (Public Law 95-222).

LSC's mission is to promote equal justice by providing financial support to independent nonprofit organizations that deliver civil legal assistance to individuals who cannot afford legal representation in noncriminal matters. LSC fulfills its mission by awarding grants to nonprofit legal aid organizations serving low-income individuals throughout the United States and its territories.

(a) Programs

Basic Field Grants

Support the delivery of high-quality civil legal services to low-income individuals across the United States and its U.S. territories.

Technology Initiative Grants

Fund the development and implementation of technology solutions to enhance the delivery, improve operational efficiency and expand access to legal resources for self-represented litigants.

Pro Bono Innovation Fund

Supports innovative and replicable pro bono initiatives that increase the engagement of private volunteer attorneys in providing legal services to low-income individuals.

Herbert S. Garten Loan Repayment Assistance Program:

Provides financial assistance to legal aid attorneys employed by LSC grantees to help repay eligible law school loans supporting recruitment and retention in the civil legal aid sector.

Natural Disaster Supplemental Grants

Provide funding to legal aid organizations to assist individuals affected by natural disasters to ensure access to critical legal services following catastrophic events.

Veterans Consortium Pro Bono Program

Funded by Congress through the U.S. Court of Appeals for Veterans Claims under the Military Construction, Veterans Affairs, and Related Agencies Appropriations Act. The program provides free legal representation to low-income veterans and their dependents appealing denials of veterans' benefits in federal court.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Revenue is recognized when earned, and expenses are recognized when incurred.

(b) Cash and Cash Equivalents

LSC considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash balances may exceed federally insured limits. LSC has not experienced any losses related to these balances.

(c) Liquidity

Financial assets available for general expenditure within one year consist of cash and other financial assets not subject to donor or legal restrictions limiting their use. Amounts obligated for Basic Field Grants and other conditional grant commitments are excluded from financial assets available for general expenditure because those amounts are restricted for specific program purposes.

Grant advances represent payments made to grantees in advance of the satisfaction of grant conditions. These amounts remain restricted until the related programmatic conditions are met. The following table presents financial assets available for general expenditure within one year as of September 30:

| | 2025 | (As Restated) 2024 |
|--|----------------------|-----------------------|
| Cash and Cash Equivalents | \$ 179,265,218 | \$ 185,169,473 |
| Accounts Receivable | 34,530 | 871,380 |
| Grant Advances | - | 2,279,452 |
| Grants and Contributions Receivable (Current) | 280,000 | 446,500 |
| Total Financial Assets Available | <u>179,579,748</u> | <u>188,766,805</u> |
| Less: | | |
| With Donor Restrictions | (51,012,977) | (68,420,957) |
| Basic Field Grants | <u>(89,284,443)</u> | <u>(87,145,443)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | <u>\$ 39,282,328</u> | <u>\$ 33,200,405</u> |

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Program-Related Receivables

Loans provided under the Herbert S. Garten Loan Repayment Assistance Program (LRAP) are recorded as program related receivables at their net realizable value.

LRAP loans are subject to a service requirement. If the recipient remains employed with an LSC grantee for a full calendar year, the loan balance is forgiven. Upon satisfaction of the service condition, LSC recognizes the forgiveness as grant expense and reduces the receivable balance. If a recipient terminates their employment before completing the service requirement, the loan becomes payable to LSC. Due to specific repayment conditions, some loans may remain outstanding for extended periods.

Management evaluates LRAP receivables for collectability. As of September 30, 2025 and 2024, no allowance for credit losses has been recorded based on historical experience. Management has determined that the LRAP loans are programmatic in nature and similar to a conditional promise to give, as repayment is not required unless the recipient fails to satisfy service requirements.

(e) Grants and Contributions Receivable

Grants and contributions receivable are recorded at the amount pledged or invoiced. Management evaluates collectability based on historical experience and an analysis of outstanding balances. An allowance for doubtful accounts is recorded when collection becomes uncertain. As of September 30, 2025 and 2024, all receivables were deemed fully collectible and no allowance was recorded.

(f) Property and Equipment

Property and equipment are recorded at acquisition cost and depreciated using the straight-line method over their estimated useful lives. LSC capitalizes property and equipment purchases exceeding \$10,000. Management reviews property and equipment for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Estimated useful lives of assets are as follows:

| | |
|-------------------------|----------|
| Furniture and Equipment | 5 Years |
| Software | 3 Years |
| Leasehold Improvements | 15 Years |

(g) Grants Payable

Grant expense is recognized when LSC has an unconditional obligation to disburse funds, typically upon execution of the grant agreement. For conditional grants, expense and a corresponding liability are recognized only when the specified conditions have been substantially met by the grantee.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Net Assets

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions:

Net Assets Without Donor Restrictions

Net assets not subject to donor restrictions are available for general operations. These funds may include amounts designated by the board of directors for specific purposes. As of September 30, 2025 and 2024, there were no board-designated net assets.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions that are satisfied either by the passage of time or the fulfillment of a specific purpose. When restrictions are satisfied, the related amounts are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

(i) Revenue and Revenue Recognition

Federal appropriations are recognized as revenue when enacted into law; as they represent nonreciprocal transfers from the federal government. Unconditional grants and contributions are recognized when received or promised. Contributions with donor restrictions are reported as revenue with donor restrictions until the restrictions are satisfied. As of September 30, 2025, LSC had no unrecognized conditional contributions.

(j) Functional Allocation of Expenses

Expenses that can be directly identified with a program or supporting service are charged accordingly. Other expenses are allocated using reasonable allocation methodologies including time, effort or other relevant factors. Allocated costs include salaries, occupancy, technology, depreciation, printing, office supplies, and consulting. Certain financial and human resource costs are allocated to the Office of Inspector General supporting services category.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Leases

LSC determines whether an arrangement constitutes a lease at inception. Leases are classified as either operating or finance and are reported on the Statement of Financial Position accordingly.

Right-of-use (ROU) assets represent LSC's right to use the leased asset, and lease liabilities represent the obligation to make lease payments. These are measured at the present value of future lease payments at the commencement date. When an implicit interest rate is not readily determinable, LSC uses a risk-free rate to discount lease payments.

Lease payments are recognized as lease expense on a straight-line basis over the lease term. Short-term leases, defined as 12 months or less, are expensed as incurred.

LSC's lease agreements do not include material residual value guarantees or restrictive covenants.

(l) Concentration of Risk

LSC receives the majority of its funding through federal appropriations. A significant reduction in federal funding could materially affect the organization's ability to carry out its programs and activities.

(m) Tax Exempt Status

LSC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable District of Columbia tax regulations. LSC had no unrelated business income for the years ended September 30, 2025 and 2024.

(n) Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions affecting reported amounts of assets, liabilities, revenues, expenses, and disclosures. Actual results may differ from these estimates.

(o) Reclassification

Certain balances for the year ended September 30, 2024 have been reclassified to reflect comparative presentation with the year ended September 30, 2025. These reclassifications had no impact on total net assets or changes in net assets.

LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

| | 2025 | 2024 |
|--|---------------------|-------------------|
| Furniture and Equipment | \$ 487,605 | \$ 237,372 |
| Software | 460,594 | 460,594 |
| Leasehold Improvements | 7,016,972 | - |
| Subtotal | 7,965,171 | 697,966 |
| Less: Accumulated Depreciation and Amortization | (1,185,504) | (559,364) |
| Total Property and Equipment, Net | <u>\$ 6,779,667</u> | <u>\$ 138,602</u> |

Depreciation and amortization expense totaled \$626,141 and \$202,439 for the years ended September 30, 2025 and 2024, respectively.

Property and equipment are reviewed for impairment when a significant change in the asset's use occurs or there is another indicator that the carrying value of an asset may not be recoverable. If such indicators are present, LSC evaluates the recoverability of the asset's carrying amount and records an impairment loss if necessary.

NOTE 4 RETIREMENT PLANS

LSC sponsors a defined contribution retirement plan in accordance with Section 403(b) plan of the IRC, and the plan is subject to an independent audit. Eligible employees may elect to contribute a portion of their compensation to the plan, subject to Internal Revenue Service limitations. LSC matches 100% of employee contributions up to 3.51% of eligible compensation and provides a nonelective contribution equal to 6% of eligible compensation. Employer contributions are subject to a three-year cliff vesting schedule. Employees become fully vested upon completion of the vesting period or upon reaching normal retirement age, death, or permanent disability. For the years ended September 30, 2025 and 2024, LSC contributions to the plan were \$2,051,633 and \$1,985,875, respectively.

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at September 30:

| | 2025 | (As Restated) 2024 |
|--------------------------------|----------------------|-----------------------|
| Emergency Disaster Relief | \$ 21,059,698 | \$ 36,329,634 |
| Technology Initiative Grant | 15,078,197 | 15,648,334 |
| Pro Bono Innovation | 10,573,440 | 11,260,014 |
| Loan Repayment Assistance | 2,357,828 | 2,774,214 |
| U.S. Court of Veterans Appeals | 234,207 | 188,462 |
| Other Purpose Restrictions | 1,709,607 | 2,220,299 |
| Total | <u>\$ 51,012,977</u> | <u>\$ 68,420,957</u> |

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 6 NONCASH CONTRIBUTIONS – IN-KIND CONTRIBUTIONS

LSC receives noncash contributions, including travel and professional services, which are recorded at fair market value based on comparable market prices at the time the services or goods are received. These contributions are not subject to donor-imposed restrictions. For fiscal years ended September 30, 2025 and 2024, noncash contributions were \$618,215 and \$168,750, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases (FASB ASC 842)

LSC's prior office lease, which was amended and extended through September 2024, expired and no further obligations remain. Lease expense for the year ended September 30, 2024, includes expense associated with this lease.

In 2023, LSC entered into a 15-year operating lease for office space in Washington, DC. The lease term commenced in January 2025. LSC obtained possession of the premises in October 2024, to allow for tenant improvements and preparation of the space for occupancy. In accordance with ASC 842, LSC recognized a ROU asset and corresponding lease liability at the lease commencement date, measured as the present value of future lease payments over the lease term.

Total rent expense for the years ended September 30, 2025 and 2024, was \$2,057,963 and \$1,710,000, respectively. The following table provides quantitative information concerning LSC's leases for the year ended September 30:

| | <u>2025</u> | <u>2024</u> |
|---|---------------|--------------|
| Lease Cost: | | |
| Operating Lease Costs | \$ 2,057,963 | \$ 1,710,000 |
| Cash Paid for Amounts Included in the Measurement of Lease Liability: | | |
| Operating Cash Flows from Operating Leases | \$ 1,538,742 | \$ 1,710,000 |
| Right-of-Use Asset Obtained in Exchange for New Operating Lease Liability | \$ 21,224,041 | |
| Weighted-Average Remaining Lease Term - Operating | 14.8 Year | 0 Year |
| Weighted-Average Discount Rate - Operating Leases | 3.98% | 4.37% |

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases (FASB ASC 842) (Continued)

Future minimum lease payments are as follows:

| <u>Year Ending September 30,</u> | <u>Amount</u> |
|-----------------------------------|----------------------|
| 2026 | \$ 2,093,718 |
| 2027 | 2,150,851 |
| 2028 | 2,209,412 |
| 2029 | 2,269,438 |
| 2030 | 2,330,964 |
| Thereafter | <u>27,341,345</u> |
| Total undiscounted lease payments | 38,395,728 |
| Less: Imputed Interest | <u>(10,044,277)</u> |
| Total | <u>\$ 28,351,451</u> |

Conditional Grants

As of September 30, 2025, LSC had awarded conditional grants but not yet recognized the related expense because the grantees had not yet satisfied programmatic conditions. These conditional grant commitments are expected to be disbursed and recognized in expense as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|---|----------------------|
| 2026 | \$ 26,066,696 |
| 2027 | 14,879,964 |
| 2028 | 5,765,613 |
| 2029 and Beyond | <u>1,380,515</u> |
| Total Conditional Grants Awarded to Date and Unpaid | 48,092,788 |
| Total Conditional Grants Advanced to Grantees | - |
| Total | <u>\$ 48,092,788</u> |

Amounts provided to grantees before grant conditions are met are recorded as advances and recognized as grant expense once the conditions are satisfied. Management expects all conditions to be met, at which point the related expenses will be recognized in future periods. Any remaining unpaid conditional grant commitments are expected to be funded from net assets with donor restrictions.

NOTE 8 SUBSEQUENT EVENTS

LSC evaluated subsequent events through June 9, 2026, the date the financial statements were available to be issued. No events occurred that would require adjustment to the or disclosure in the financial statements.

**LEGAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2025 AND 2024**

NOTE 9 CORRECTION OF PRIOR PERIOD ERROR

During the year ended September 30, 2025, management identified an error related to the classification of investment income earned on funds derived from federal appropriations. Historically, this investment income had been classified as net assets with donor restrictions based on management's prior interpretation of applicable guidance.

Upon further review of applicable case law and GAAP, management determined that investment income earned on these funds is not subject to donor-imposed restrictions and should be classified as net assets without donor restrictions. Accordingly, LSC restated its 2024 financial statements to correct the classification of investment income between net asset classes. The correction did not affect total net assets, change in net assets or overall financial position. The effects of the restatement are summarized below:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|----------------------|
| Net Assets, Beginning of Year, FY 2024, as Previously Reported | \$ 15,495,690 | \$ 83,437,550 | \$ 98,933,240 |
| Adjustment- Restatement of Investment Income | <u>7,806,766</u> | <u>(7,806,766)</u> | <u>-</u> |
| Net Assets, Beginning of Year (FY2024) as Restated | <u>\$ 23,302,456</u> | <u>\$ 75,630,784</u> | <u>\$ 98,933,240</u> |
| Investment Income, as Previously Reported | \$ 993,103 | \$ 9,288,754 | \$ 10,281,857 |
| Adjustment- Restatement of Investment Income | <u>9,170,582</u> | <u>(9,170,582)</u> | <u>-</u> |
| Investment Income, as Restated | <u>\$ 10,163,685</u> | <u>\$ 118,172</u> | <u>\$ 10,281,857</u> |



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Services Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2025, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Services Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Legal Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Services Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as 2025-1 that we consider to be a material weakness.

Report on Compliance and Other Matters

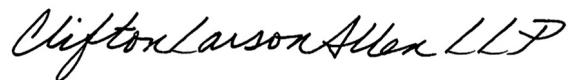
As part of obtaining reasonable assurance about whether Legal Services Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Legal Services Corporation's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on Legal Services Corporations' responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. Legal Services Corporation's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Columbia, Maryland
June 9, 2026

**LEGAL SERVICES CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2025**

Material Weakness

2025-1

Condition:

Prior to fiscal year 2025, LSC classified investment income earned on balances derived from its federal appropriation as net assets with donor restrictions. During the fiscal year ended September 30, 2025, management conducted additional legal research, including legal review and evaluation of applicable accounting guidance, and determined that this investment income is not subject to donor-imposed restrictions. Accordingly, such investment income should be classified as “without donor restrictions.”

As a result, the financial statements were restated to correct the classification of investment income between net asset categories.

Criteria:

In accordance with Financial Accounting Standards Board’s (FASB) Accounting Standards Codification (ASC) 958-205-45-13B, investment return is generally considered without donor restrictions unless its use is explicitly restricted by donor or by law. When no such restrictions exist, investment income should be recognized as an increase in net assets without donor restriction.

Additionally, FASB ASC 250, *Accounting Changes and Error Corrections*, requires errors in previously issued financial statements to be corrected through retrospective restatement of the financial statements presented. Under ASC 250, the correction of such errors is reflected as an adjustment to the opening balances of the affected net asset classifications for the earliest period presented. The cumulative effect of the correction is recorded as an adjustment to the opening balance(s) of the affected class(es) of net assets as of the beginning of the earliest period presented.

Effect:

As a result of the corrections, approximately \$7.8 million related to periods prior to FY 2024 is reflected as an adjustment to beginning net assets, restating amounts from net assets with donor restrictions to net assets without donor restrictions. In addition, approximately \$9.1 million related to FY 2024 activity has been restated within the Statement of Activities from investment income with donor restrictions to investment income without donor restrictions. The correction has no impact on total net assets, total revenues, or changes in net assets for the period; however, amounts within the “with donor restrictions” and “without donor restrictions” categories have been restated.

Cause:

The prior classification of investment income reflected management’s historical interpretation of the applicable accounting treatment of investment earned on balances derived from federal appropriations. Subsequent analysis, including additional legal review and evaluation of the relevant accounting guidance, clarified that the investment income is not subject to donor-imposed restrictions and should therefore be reported as net assets without donor restrictions.

**LEGAL SERVICES CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
SEPTEMBER 30, 2025**

Material Weakness (Continued)

2025-1 (Continued)

Recommendation:

We recommend that management enhance controls to ensure that significant changes in legislative, regulatory, legal interpretations, or applicable accounting standards that may impact financial reporting – particularly asset classification – are identified, evaluated, and reflected in the financial statements in a timely manner.

Management Response:

Management agrees with the finding and the resulting restatement. The prior presentation reflected a long-standing interpretation regarding the treatment of investment income on balances derived from federal appropriations.

During fiscal year 2025, management performed additional analysis, including consideration of applicable legal case law and GAAP, which clarified that such investment income is not subject to donor-imposed restrictions. Based on this analysis, management corrected the classification through a prior-period restatement.

The misclassification did not arise from any failure of LSC's internal controls over the recordation of transactions, recognition of revenue or safeguarding of assets. Had the legal research and analysis completed in 2025 been completed prior to the time that the subject investment income became significant such investment income would have been recorded in net assets without donor restrictions in the prior years.

Management will review its processes and procedures for monitoring legal, legislative and regulatory developments for any changes that might have a current or future effect on LSC or its grantees and make changes deemed necessary.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.