



Thirty Years Of Promoting Equal Access To Justice



LEGAL SERVICES CORPORATION

2003-2004 ANNUAL REPORT

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LSC Grantees

Acadiana Legal Service Corporation
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Anishinabe Legal Services
Appalachian Research and Defense
Fund of Kentucky
Atlanta Legal Aid Society
Bay Area Legal Aid
Bay Area Legal Services
Blue Ridge Legal Services
California Indian Legal Services
California Rural Legal Assistance
Capital Area Legal Services Corporation
Center for Arkansas Legal Services
Central California Legal Services
Central Jersey Legal Services
Central Minnesota Legal Services
Central Virginia Legal Aid Society
Coast to Coast Legal Aid of South Florida
Colorado Legal Services
Community Law Office
Community Legal Aid Services
Community Legal Services of Mid-Florida
Community Legal Services
Dakota Plains Legal Services
DNA-Peoples Legal Services
East River Legal Services
Essex-Newark Legal Services Project
Florida Rural Legal Services
Georgia Legal Services Program
Greater Bakersfield Legal Assistance
Guam Legal Services Corporation
Idaho Legal Aid Services
Indiana Legal Services
Inland Counties Legal Services
Iowa Legal Aid
Judicare of Anoka County
Kansas Legal Services
Kentucky Legal Aid
Land of Lincoln Legal Assistance Foundation
Lane County Legal Aid Service
Laurel Legal Services
Legal Action of Wisconsin
Legal Advice & Referral Center
Legal Aid and Defender Association
Legal Aid Bureau
Legal Aid Foundation of Los Angeles
Legal Aid of Arkansas
Legal Aid of East Tennessee
Legal Aid of North Carolina

Legal Aid of NorthWest Texas
Legal Aid of Southeastern Pennsylvania
Legal Aid of the Blue Grass
Legal Aid of West Virginia
Legal Aid of Western Missouri
Legal Aid of Western New York
Legal Aid of Western Ohio
Legal Aid Service of Northeastern Minnesota
Legal Aid Services of Oklahoma
Legal Aid Services of Oregon
Legal Aid Society
Legal Aid Society of Eastern Virginia
Legal Aid Society of Greater Cincinnati
Legal Aid Society of Hawaii
Legal Aid Society of Middle Tennessee
and the Cumberlands
Legal Aid Society of Mid-New York
Legal Aid Society of Northeastern New York
Legal Aid Society of Orange County
Legal Aid Society of San Diego
Legal Assistance Foundation of
Metropolitan Chicago
Legal Services Alabama
Legal Services Corporation of Delaware
Legal Services of Cape, Plymouth and Islands
Legal Services for New York City
Legal Services Law Line of Vermont
Legal Services of Eastern Michigan
Legal Services of Eastern Missouri
Legal Services of Greater Miami
Legal Services of North Dakota
Legal Services of North Florida
Legal Services of North Louisiana
Legal Services of Northern California
Legal Services of Northern Michigan
Legal Services of Northwest Jersey
Legal Services of Northwest Minnesota Corporation
Legal Services of South Central Michigan
Legal Services of Southern Missouri
Legal Services of The Hudson Valley
Legal Services of the Virgin Islands
Lone Star Legal Aid
Marion-Polk Legal Aid Service
Massachusetts Justice Project
Memphis Area Legal Services
Merrimack Valley Legal Services
Michigan Indian Legal Services
Micronesian Legal Services
Mid-Missouri Legal Services Corporation
MidPenn Legal Services

Mississippi Center for Legal Services
Montana Legal Services Association
Nassau/Suffolk Law Services Committee
Native Hawaiian Legal Corporation
Nebraska Legal Services
Neighborhood Legal Services Association
Neighborhood Legal Services of
Los Angeles County
Neighborhood Legal Services Program
of the District of Columbia
Neighborhood Legal Services
Nevada Legal Services
New Center for Legal Advocacy
New Mexico Legal Aid
North Mississippi Rural Legal Services
North Penn Legal Services
Northeast New Jersey Legal Services Corporation
Northwest Justice Project
Northwestern Legal Services
Ocean-Monmouth Legal Services
Ohio State Legal Services
Oklahoma Indian Legal Services
Philadelphia Legal Assistance Center
Pine Tree Legal Assistance
Potomac Legal Aid Society
Prairie State Legal Services
Puerto Rico Legal Services
Rhode Island Legal Services
South Jersey Legal Services
South Middlesex Legal Services
Southeast Louisiana Legal Services Corporation
Southern Arizona Legal Aid
Southern Minnesota Regional Legal Services
Southwest Virginia Legal Aid Society
Southwestern Pennsylvania Legal Services
Statewide Legal Services of Connecticut
Texas RioGrande Legal Aid
The Legal Aid Society of Cleveland
The Legal Aid Society of Columbus
The South Carolina Centers for Equal Justice
Three Rivers Legal Services
Utah Legal Services
Uunai Legal Services Clinic
Virginia Legal Aid Society
Volunteer Lawyers Project of the
Boston Bar Association
West Tennessee Legal Services
Western Michigan Legal Services
Wisconsin Judicare
Wyoming Legal Services



LSC Mission is

- to provide equal access to the system of justice in our Nation for individuals who seek redress of grievances
- to provide high quality legal assistance to those who would be otherwise unable to afford adequate legal counsel
- to assist in improving opportunities for low-income persons

The Legal Services Corporation Act
As Amended, 42 U.S.C. § 6001 et seq.

ROBERT EPSTEIN

LEGAL SERVICES CORPORATION

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LEGAL SERVICES CORPORATION

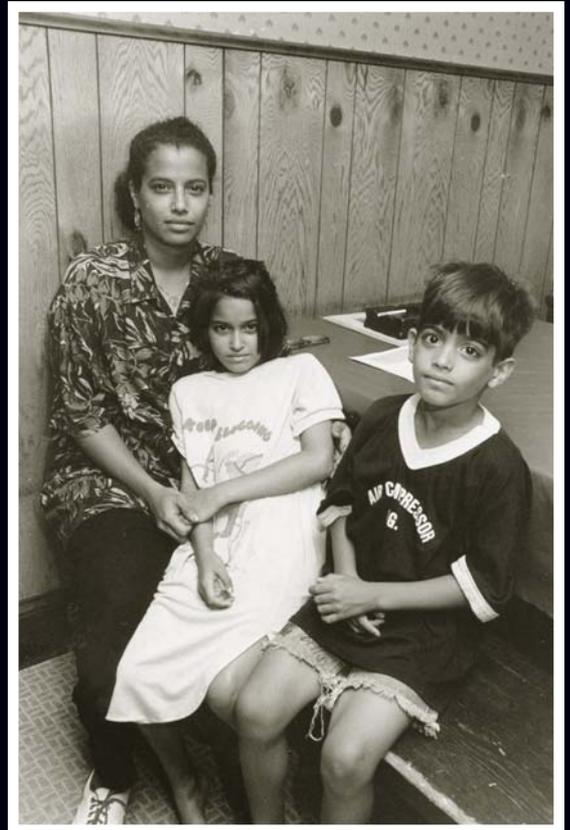
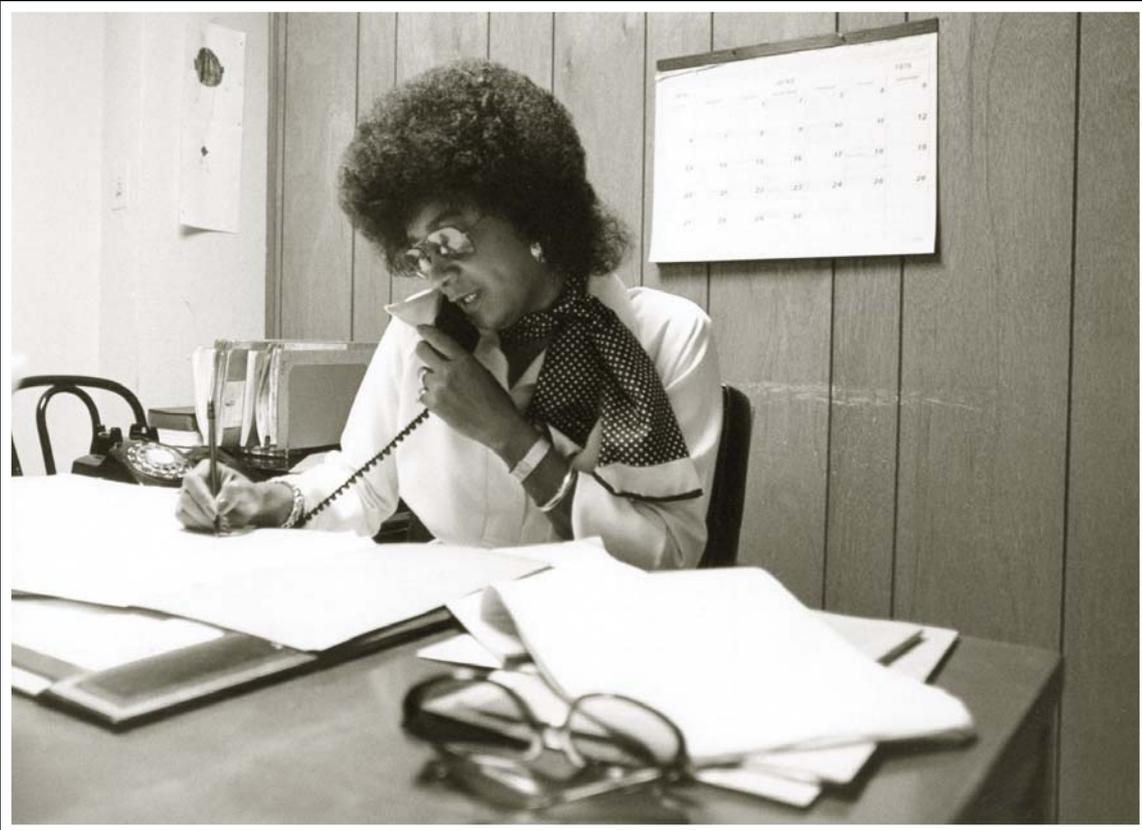
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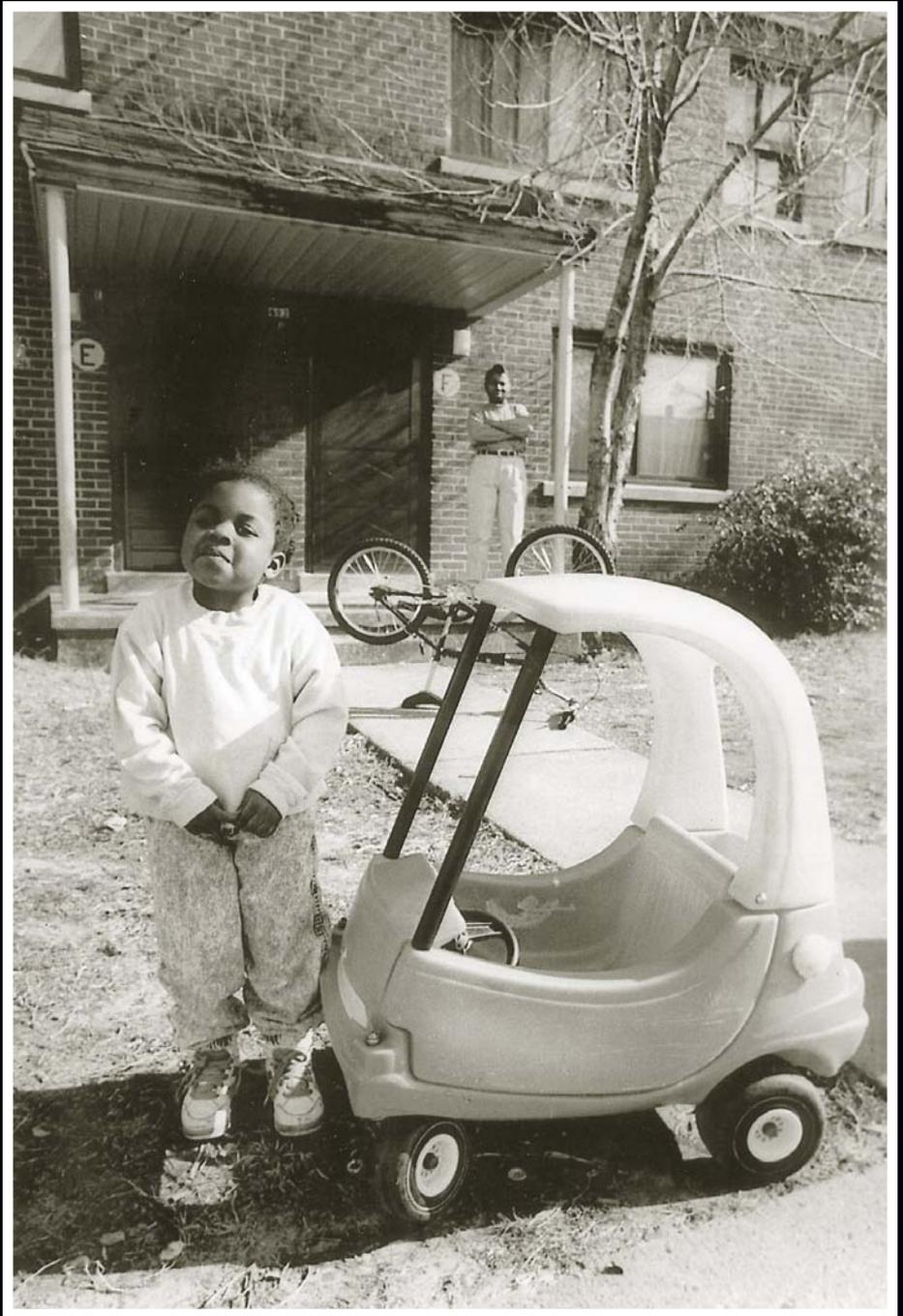
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Committed To Clients

One thing that has remained constant throughout LSC's 30 years of existence has been an unyielding focus on providing high-quality client services to the poor. The LSC Act of 1974 charged LSC-funded attorneys with "providing high quality legal assistance to those who would be otherwise unable to afford adequate legal counsel," noting that "for many of our citizens, the availability of legal services has reaffirmed faith in our government and laws." Between 1976 and 1980, LSC awarded grants to programs in 14 states to test a variety of methods of providing legal services to the poor in what became known as the National Delivery System Study. Ten alternatives to the staff-model system were tested, but none proved as efficient as funding a core group of knowledgeable, full-time attorneys to provide for the civil legal needs of America's poor. The staff attorney model remains in place today, supplemented by the efforts of tens of thousands of members of the private bar.



Legal Services *Rewind*

LSC celebrated 30 years of providing equal access to justice in Nov. 2004 by holding an anniversary conference in Washington, D.C., that reunited early and current leaders. **BELOW:** LSC's first Chairman Roger Cramton (*right*), pictured with Glen Stophel, helped lay the foundation for the national legal services program in the days before LSC had a single employee or office space from which to work. In 1976, Cornell Law Dean Cramton successfully testified before a House funding subcommittee on an LSC budget increase. He presided over a national expansion of legal aid programs, which were initially concentrated in urban centers like Boston.



LEFT: Succeeding Cramton as LSC Chair was former legal services attorney Hillary Rodham (*second from right*), who was instrumental in building a legal services infrastructure in the state of Arkansas while a professor and law clinic director at the University of Arkansas School of Law. Rodham was successful in enlisting private bar support for legal services before being appointed to the LSC Board by President Carter. Rodham, who was in private practice at the time of her appointment, was elected LSC Chair by her colleagues. Here, she presides over an LSC meeting with fellow Board members (*L to R*) Josephine Worthy, Cecilia Esquer, Steven Engelberg, and Richard Trudell.

Under New Leadership

Thirty years ago, the federal government took concrete steps to make good on its promise of “justice for all.” With final passage of the LSC Act of 1974, Congress advanced our national commitment to equal access to civil justice by establishing the independent, nonprofit Legal Services Corporation. Signed into law by President Nixon with bipartisan support from lawmakers, the LSC Act mandated that LSC grantees would “provide legal assistance to those who face an economic barrier to adequate counsel” in order to “serve best the ends of justice and assist in improving opportunities for low-income persons.”

Three decades later, LSC’s impact on American society can be measured by the tens of millions of low-income people whose lives have been bettered as a result of receiving critical, sometimes even life-sustaining, legal aid. A new era in LSC’s long history of service began in April 2003 at the organization’s quarterly Board of Directors meeting



in Santa Fe, N.M. There, a historic changing of the guard took place as the longest-serving Board in LSC history passed the leadership reins to the Board appointed by President George W. Bush. The Board’s 11 members elected Atlanta attorney Frank B. Strickland, *pictured*, LSC’s new Chairman.

Like its forerunner, the new Board quickly established itself as bipartisan and deeply committed to furthering LSC’s mission of providing high-quality legal assistance to those who would otherwise be unable to afford it. The current LSC Board is a diverse and high-

ly dedicated collection of leaders, composed of four practicing attorneys, three law professors, a corporate executive, a client representative, and two long-serving members of the previous Board.

All of President Bush’s appointments came to office with strong philanthropic backgrounds; most possessed direct leadership experience in the equal justice arena. The leaders include board members of local legal aid programs; directors of law school clinics; and leaders of IOLTA foundations, American Bar Association committees, and statewide panels dedicated to broadening access to justice.

Chairman Strickland previously served for more than a decade on the local boards of directors of two LSC grantees based in Atlanta—seven years with the largely rural Georgia Legal Services Program and four with the mostly urban Atlanta Legal Aid Society. Strickland, a highly regarded conservative Republican, has spoken powerfully to GOP lawmakers in Congress of his legal services “awakening” in 1985, when he was asked by an Atlanta judge to spearhead a *pro bono* project to secure legal representation for 1,100 Mariel Cubans being detained in a federal prison after fleeing communist Cuba in the Freedom Flotilla. Strickland told leaders in the U.S. House of Representatives about visiting the Cuban detainees in a federal penitentiary, speaking with them through an interpreter, and observing first-hand their despair that no one would help them navigate the courts of the world’s greatest democracy. Strickland mobilized 400 Atlanta *pro bono* attorneys to represent more than 800 detainees in administrative parole hearings and has been a leader in the legal aid community ever since.

In December 2003, the LSC Board of Directors named a new President who understands just how critical legal services

can be to poor people in crisis. The Board selected as LSC’s 18th President Helaine M. Barnett, *pictured*, who had spent her entire 37-year legal career as an advocate at The Legal Aid Society of New York City. Her selection was met with widespread enthusiasm across the national legal services community by advocates delighted to see one of their own promoted to LSC’s top job. Barnett impressed the LSC Board with her grasp of the challenges of delivering basic, day-to-day services to the poor; her well-established ties to national, state, and local bar associations and their leaders; her background in legal ethics and the



delivery of quality legal services to the poor; and her widely acclaimed mobilization of New York attorneys to provide disaster relief assistance in the wake of September 11.

Barnett, who began on January 20, 2004, is the first woman to serve as LSC’s President on a non-interim basis. She is the first LSC President to have been appointed after spending an entire career in the field, providing direct services to clients and managing a large legal aid program. She is the only legal services attorney to have served on the American Bar Association’s Board of Governors and its Executive Committee. Barnett also served as a co-chair of New York’s Commission to Promote Public Confidence in Judicial Elections and is the Treasurer of the Association of the Bar of the City of New York. She succeeds former Illinois Congressman John Erlenborn as LSC President.

Message From The President

“Equal Justice Under Law” is an ideal cherished by Americans. As Supreme Court Justice Lewis Powell noted, “Equal justice under law is not just a caption on the façade of the Supreme Court building. It is perhaps the most inspiring ideal of our society... It is fundamental that justice should be the same, in substance and availability, without regard to economic status.”

Attorneys in LSC-funded programs attempt to resolve critical problems in the lives of their clients, whether it is helping individuals escape an abusive situation, preventing an eviction or foreclosure, overturning an unlawful termination of public benefits, or protecting the elderly from predatory lenders. In many cases, our work is essential to the clients’ economic and personal survival and that of their families as well. Our clients are the most marginalized and vulnerable individuals among us. They are children, survivors of domestic violence, seniors, veterans, or persons with disabilities. They are also families facing evictions, the uninsured, the unemployed, low-wage workers, institutionalized individuals, Native Americans on reservations, and migrant farm workers. Legal services programs help improve the lives of low income persons by helping them obtain or maintain the basic necessities of life and to obtain stability, security, and self-sufficiency.

Unfortunately, poor people all too often do not have lawyers, even when they desperately need them. According to the most recent census data, there are more than 45.2 million Americans who meet the financial eligibility requirements for federally funded civil legal assistance.

With a budget of \$335.3 million, LSC funding supports approximately 3,700 full time attorneys who staff 143 programs that annually handle approximately one million cases and four million “matters,” activities like community education training and legal

self-help seminars. As the national oversight organization, LSC is committed to ensuring that the programs we fund provide high quality, client-centered civil legal services to the eligible poor in conformity with the mandates of Congress.

LSC is at a fortunate time in its history and enjoys the strong bipartisan support of Congress and the current Administration, under President George W. Bush. This support is the result of the outstanding work of our programs, careful monitoring by LSC to ensure compliance with congressional restrictions, and the successful efforts by my predecessors. Nonetheless, the adequacy of federal funding remains a critical issue. One of our challenges is to work with our partners at the national and state levels to document the “justice gap”—that is, to effectively articulate the significant disparity between the need for legal assistance and the available resources.

A primary emphasis during my tenure at LSC is to focus on program quality. It is not enough for a low-income person to have access to a lawyer if that access does not result in high quality service. Access to a lawyer is not, in and of itself, access to justice. By putting quality at the forefront of what LSC stands for today, my aim is to make our grantees’ delivery of legal services even better. As part of the quality agenda, LSC will continue to make leadership development and increased diversity important priorities.

When I reflect on my decision to become a legal aid lawyer 37 years ago, I realize I was motivated then, as I am still today, by my belief that providing civil legal services to the poor is not only central to fundamental fairness, due process, and equal protection of the law, it is how the law may be used to correct inequities and abuses and to protect the rights of the less fortunate. In order to foster respect for the law, there must be a commitment to ensure

that no particular segment of society is excluded from access to justice and that the ability to resolve pressing civil legal problems is not based on financial status. For ultimately, how we respond to the needs of the most vulnerable among us—at their time of greatest need—is clearly one of the ways by which we will be judged as a civilized democratic society.

During my tenure as LSC President, I have been very impressed with what I have seen of the work of our grantees and the work of the LSC staff. I thank our grantees for the meaningful work they do on behalf of their clients and thank the staff of LSC for their commitment, dedication and professionalism. The 30th Anniversary of LSC’s establishment by Congress is an opportunity to restate our societal commitment to achieve equal access to justice for all Americans. Our national pledge to promote equal justice for all has not yet been fulfilled and may never be unless we decide as a society to honor it. As Judge Learned Hand aptly noted: “If we are to keep our democracy, there must be one commandment: thou shall not ration justice.”

We have the privilege not only of living in this great democracy, but of serving in the profession that enables us to preserve and improve that democracy. We must embrace the responsibility that comes with those privileges to ensure that justice truly is not just for some, but for all.



A handwritten signature in blue ink that reads "Helaine Barnett". The signature is fluid and cursive.

Helaine M. Barnett, LSC President

HELPING



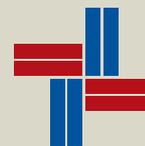
HELPING

Delivering Vital Aid

For millions of low-income Americans, legal services programs represent their only means to access the justice system. The clients helped by LSC are as diverse as the nation, encompassing all races, ethnic groups, and ages. More than two-thirds of LSC's clients are women, many with children. Another 10 percent are senior citizens. Legal services clients include the working poor, veterans, Native Americans, family farmers, people with disabilities, and victims of natural disasters. Many were formerly of moderate means but became poor as a result of family tragedy, illness, or sudden unemployment. Federally funded legal services programs help thousands of Americans each year restore their economic independence through advocacy within the U.S. civil justice system, consistent with LSC's statutory mandate.

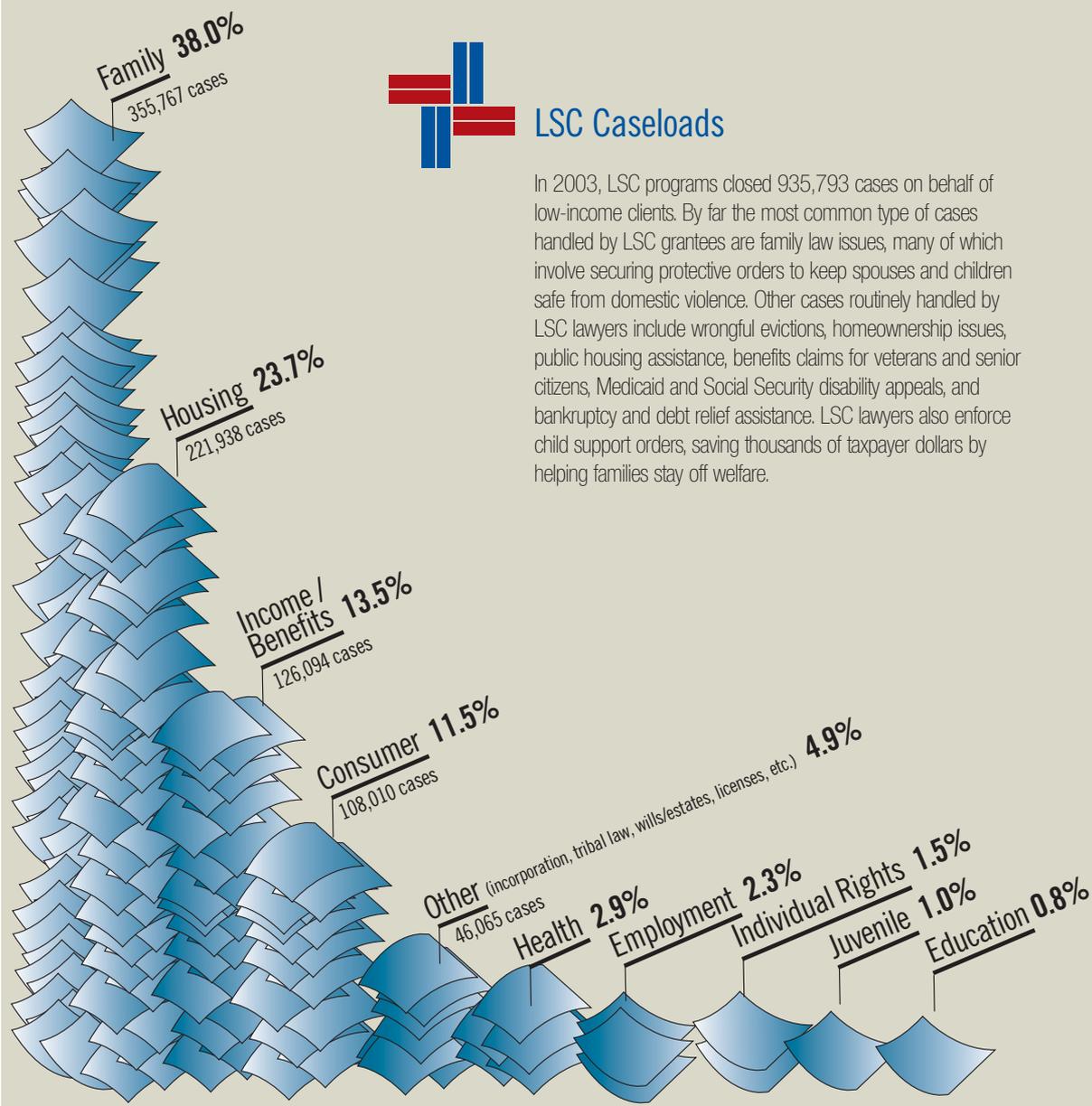
LSC's official caseload statistics tell only part of the story, however, which is why LSC's Office of Information Management debuted its "matters" reporting system in 2002. "Matters" are the kinds of assistance rendered by LSC grantees that fall short of the official definition of a case but nonetheless constitute significant help for clients seeking justice. Examples of "matters" include self-help clinics, community legal education sessions, staffing courthouse help desks, and maintaining statewide legal aid websites. Under this definition, LSC estimates that its grantees handled 4 million "matters" in 2003 alone.

Left unresolved, the problems clients bring to LSC-funded programs can end up costing society far more than the funding invested in legal aid. Most legal services cases are resolved rapidly and out of court. Often, legal advice, a referral, or a letter or phone call can solve a legal problem; litigation is seen by LSC lawyers as a solution of last resort. Less than 14 percent of the cases closed in 2003 were resolved through the courts.



LSC Caseloads

In 2003, LSC programs closed 935,793 cases on behalf of low-income clients. By far the most common type of cases handled by LSC grantees are family law issues, many of which involve securing protective orders to keep spouses and children safe from domestic violence. Other cases routinely handled by LSC lawyers include wrongful evictions, homeownership issues, public housing assistance, benefits claims for veterans and senior citizens, Medicaid and Social Security disability appeals, and bankruptcy and debt relief assistance. LSC lawyers also enforce child support orders, saving thousands of taxpayer dollars by helping families stay off welfare.



Source: Grant Activity Reports compiled by LSC Office of Information Management

Ensuring High-Quality Service

With the appointment of Helaine M. Barnett as President, LSC gained a leader who understands what it means to deliver services to the poor from the ground up. Prior to her arrival in Washington, D.C., Barnett spent nearly three decades involved in the management of the multi-office Civil Division of the Legal Aid Society of New York City, America's largest legal aid program.

Since her first day in office, Barnett has stressed her commitment to high-quality, client-centered civil legal services to eligible poor people in conformity with the mandates of Congress. One of her first actions as LSC's leader was to begin a national conversation on the best ways for LSC programs to ensure the provision of high-quality assistance.

"Access to a lawyer is not, in and of itself, access to justice," Barnett told assembled leaders at an Equal Justice Conference in April 2004, adding, "It is not enough for a low-income person to have access to a lawyer if that

access does not result in high-quality service." Months after assuming the LSC Presidency, Barnett announced she would focus on quality and began by addressing fundamental questions: How do legal aid providers define and measure quality? What role can LSC play as a funder to inspire programs to provide high-quality legal assistance?

LSC is working with the ABA's Standing Committee on Legal Aid and Indigent Defendants to revise the *Standards for Providers of Civil Legal Services to the Poor*, in addition to updating LSC's

own internal performance criteria for grantees. While these efforts are ongoing, several indicia of high-quality service already have been identified. Some of the characteristics of high-performing programs include streamlined case management systems, competent and motivated staff, active local and state resource development efforts, consistently strong outcomes on behalf of clients, workforce diversity, strategic use of scarce resources, effective use of technology, ongoing staff training, and utilization of peer review and critical self-evaluation.

Since Congress mandated an end to presumptive refunding of grantees in 1996, LSC has awarded field grants on a competitive basis, rewarding those applicants that demonstrate the capacity

to deliver effective legal assistance. Once an applicant for federal funds becomes an LSC grantee, it is subject to regular visits by LSC program officers. From January 1, 2003, to October 1, 2004, LSC conducted 38 visits to grantees to assess pro-

gram quality, evaluate the optimal configuration of programs, and provide technical assistance.

Starting in 1998, all LSC grantees were required to participate in statewide planning to build integrated state justice communities comprised of legal aid providers, the courts, state and private funders, the private bar, law schools, and other local stakeholders. Since the beginning of this initiative, LSC has consolidated the number of recipients receiving federal funding from 261 grantees to 143 in 2004, increasing overall program efficiency.

"Access to a lawyer is not, in and of itself, access to justice. It is not enough for a low-income person to have access to a lawyer if that access does not result in high-quality service."

—LSC President Helaine M. Barnett



LSC's Online Resource Library

One of the principal means by which LSC encourages high-quality legal services is to serve as a clearinghouse to promote best practices and innovative ideas among its grantees. In order to accomplish this, LSC launched a unique library in cyberspace (www.lri.lsc.gov) where advocates can learn about the cutting-edge work of their peers.

The LSC Resource Library is divided into seven discrete sections to foster improved client service: substantive practice areas, diversity, legal work management, *pro se*, technology, intake, and state delivery systems. The site includes project descriptions, training manuals, tool kits, and links to information on child care projects, elder assistance practices, domestic violence protocols, economic development initiatives, and mortgage foreclosure prevention, to name just a few.

The site contains important suggestions for providers serving a growing population of clients with limited English proficiency, as well as strategies for the delivery of legal services in rural areas where geographic barriers pose unique challenges to advocates. Finally, visitors to the library may sign up for an electronic newsletter that features information from the website and solicits suggestions for future site development.

Encouraging Innovation

The effective utilization of new technologies has been one of LSC's key strategies to serve more clients efficiently in an era of diminishing legal services resources. In 2000, Congress began funding special Technology Initiative Grants (TIG) to enable LSC grantees to reach broader segments of America's low-income population. In 2003 and 2004, LSC reviewed a total of 189 applications and awarded 105 competitive technology grants totaling nearly \$6.5 million.

LSC's TIG awards are divided into four main areas: *pro se* initiatives, legal information web sites, technology planning and implementation, and evaluation and support efforts. Among the many benefits of the TIG program, the grants have allowed LSC to forge and strengthen partnerships with the courts, the bar, private companies, and other stakeholders. LSC has partnered with state courts, bar associations, and major U.S. companies in support

of its TIG awards. Members of Congress and state supreme court justices have joined LSC officials in announcing major TIG grants.

Early in the TIG program's existence, some in the legal services community expressed concern that many low-income clients would have difficulty using online resources because they cannot afford a home computer. But the increasing availability of publicly accessible Internet terminals at courthouses, shelters, and public libraries has lessened that concern. A recent study by the Bill &



LSC has joined with state supreme court justices and lawmakers to announce technology grants. At the Georgia Supreme Court (*above*), LSC awarded funding for a legal self-help center for seniors. At the Idaho Supreme Court (*above right*), Barnett and Justice Linda Copple Trout listen to Idaho Legal Aid Services Director Ernesto Sanchez describe plans to automate court forms. Senator Conrad Burns (*left*) announced a Montana video conferencing grant, and Rep. Ted Strickland (*right*) announced a grant for Ohio's *pro se* website.



Melinda Gates Foundation reports that 95 percent of libraries offer public access to the Internet, and 14 million people use these library Internet terminals annually. Low-income families, the report stated, are especially likely to take advantage of library-based Web resources. LSC has invested roughly \$3 million in the last two years so that every state has a comprehensive legal services website where clients can access important legal materials. Other TIG grants have supported the creation of sites specifically designed



JOHN BAKER

to assist self-represented litigants by offering downloadable self-help materials, referrals to legal and social services providers, and other useful links. Some state websites offer video and audio tours of local courthouses. In 2004, Montana Legal Services Association and Iowa

Legal Services Corporation were awarded a grant to pioneer a "virtual legal assistance" feature that allows clients to receive help navigating the *pro se* site through a real-time online discussion with a trained volunteer.

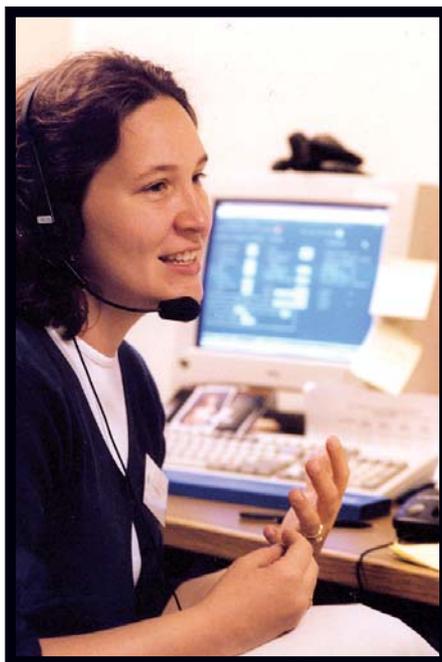
In an effort to help self-represented litigants navigate their way through the court system, LSC is funding "document assembly" systems that allow users to log online and fill out court forms and pleadings by answering simple questions presented in a

basic interview format. Each system will tailor its online court forms to be consistent with the state's case law and jurisdictional rules. Some states, such as Idaho, are pioneering systems that will offer bilingual options, allowing users to fill out the forms in Spanish while printing the forms to be filed in court in English.

In Colorado, LSC's grantee is partnering with Lexis-Nexis Courtlink to pioneer electronic filing for self-represented litigants, eliminating the need to print out

and drop off court forms all together—an innovation that holds great promise for litigants in rural states, who sometimes live hundreds of miles away from the nearest courthouse. Leaders of the Legal Aid Society of Orange County have pioneered a special online module that allows low-income workers to submit forms to obtain the Earned Income Tax Credit. In 2003, low-income Americans across the country used the online EITC module to claim tax credits to which they were entitled.

In Montana, state legal services leaders have used TIG funding to pioneer a first-of-its kind video conferencing system that connects clients living in remote parts of the states with local courthouses or legal services attorneys. The video conferencing system reduces geographic obstacles to justice by allowing witnesses who live far from the nearest court to provide online testimony before a judge. It also allows clients unable to visit a



TIG funding for increased connectivity, case management system upgrades, and intake tools has allowed many LSC grantees facing budget cuts to do more with less.

local legal aid attorney to speak face-to-face with an advocate. In 2003, LSC funded a study of the feasibility of expanding the video conferencing pilot.

TIG funding for increased connectivity, case management system upgrades, and intake tools has allowed many LSC grantees facing budget cuts to do more with less. New case management systems integrate data from grantees' multiple offices, from newly merged programs, or from multiple grantees in a state, thereby enhancing the efficiency of operations from the intake process to case supervision. In addition, the TIG program has supported a range of initiatives to help providers learn from and

assist one another. Targeted online training has provided directors and staff with the technical expertise necessary to implement new technology systems effectively. TIG has funded projects that allow grantee staffs to collaborate by convening online meetings, where they can share resources and feedback on legal issues without leaving their offices. In places like Tennessee, LSC has funded an online system that allows legal services lawyers to give case research assignments to law students, who get course credit while providing valuable assistance to understaffed legal aid offices. These relatively inexpensive projects enhance the services that LSC grantees are able to provide.

Championing Diversity

Legal Services Corporation awards approximately \$316 million annually to grantees that serve the legal needs of low-income people living in every county in the United States. In addition to serving the 50 states, LSC also funds programs in the American territories, including Guam, Micronesia, Puerto Rico, and the Virgin Islands. In 2004, a new program joined the LSC family when the Corporation awarded its first grant to a provider in American Samoa, the Uunai Legal Services Clinic.

Since its inception, LSC has recognized the unique legal needs of Native Americans and, therefore, has consistently provided funding to specialized Native American programs. In 2004, LSC awarded \$8.8 million to 27 such programs serving members of tribes living on or near reservations across America. In the early days of LSC's existence, because most tribes were desperately poor, Native American legal aid programs played a significant role in assisting nascent tribal governments with the building of their legal infrastructures, including the drafting of tribal codes, statutes, and constitutions. Seeking federal recognition for tribes was a high priority for legal aid programs during the 1960s and 1970s, and the work continues today where appropriate.

Today, LSC-funded Native American programs have shifted their focus in order to help more individual tribe members resolve their legal problems. While their legal needs appear to be the same as those faced by low-income persons elsewhere, the practice of law in Native American areas is vastly more complex due to the overlapping jurisdictions of tribal, state, and federal court systems, as well as the applicability of specific statutes such as the Indian Civil Rights Act and the Indian Child Welfare Act. For instance, Native American programs may provide legal representation to obtain full faith and credit in a tribal court for a pro-

TECTIVE order issued by a state court to help a victim of domestic violence. Or they may bring an action against an unscrupulous used car dealer preying on poor tribal members in towns bordering the reservation. Or they may help tribal members preserve the "trust" status of their land.

While the funding share of Native American programs is less than 3 percent of the overall funding of the LSC national delivery system, these programs have made considerable contributions to the justice system in Native American areas and have helped better the lives of many poverty-stricken tribe members.

According to the 2000 Census, almost 47 million people in the United States speak a language other than English at home, and nearly half of those (more than 21 million) speak English "less than very well." Many of them are poor and eligible for legal services. LSC grantees help clients through initiatives that overcome challenging linguistic barriers.

Partnerships are crucial to serving communities with high populations of clients with limited English proficiency. Inland Counties Legal Services in Southern California, for instance, collaborates with local family law courts to expand access for Spanish-speaking litigants and helps hundreds of non-English speaking clients address serious family law problems. In New York City, the Queens office of Legal Services for New York City (LSNY) serves a poverty population that includes some 2 million eligible clients who are not proficient in English. The Queens office of LSNY trains bilingual nonprofit staffs on the legal rights



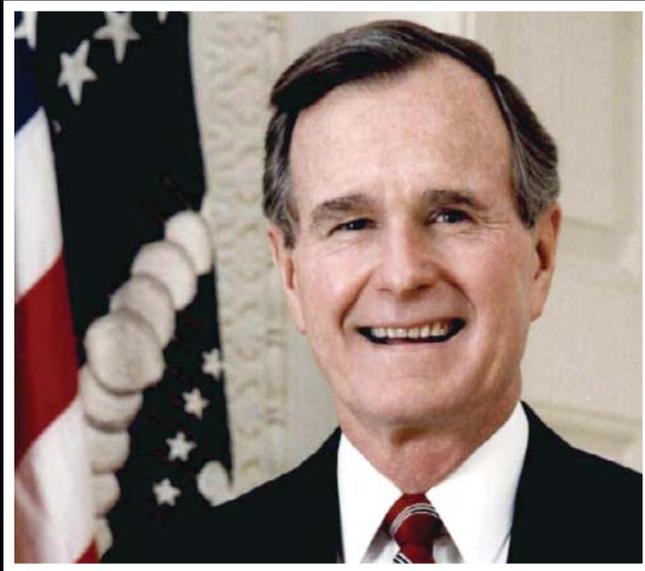
In 2004, LSC awarded \$8.8 million to 27 legal aid programs like New Mexico Legal Aid, which promote access to justice for Native Americans living on or near reservations.



JERRY GOFFE

of immigrants; in turn, these partner organizations refer eligible clients to LSNY. Legal aid lawyers derive great satisfaction from such work. Consider the challenges of helping a Buddhist client who believes that the domestic violence she suffers results from sins committed in her former life, or of assisting women from Eastern Europe who struggle to feed their families by taking grueling and sometimes dangerous housework obtained through a day laborer pool, or how bilingual staff can help non-English speaking litigants secure the legal resolutions they deserve. The cultures of such diverse populations raise novel legal issues that energize the work of LSC-funded lawyers and illustrate the expansive nature of the American ideal of "justice for all."





At ABA Law Day on April 1989, President George H.W. Bush said,

“Our legal system still exhibits a number of imperfections. These problems are particularly distressing to the poor. Many indigent persons are simply precluded from pursuing legal remedies to their grievances. All too often, this exclusion invites disrespect for our judicial system and subsequently invites disrespect for our democracy. It is everyone’s responsibility to ensure the effectiveness and accessibility of the American justice system.”



Twelve years later, President George W. Bush stated,

“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.”

SUPPORT



HISHAM E. IBRAHIM

SUPPORT

Progress in Washington

Legal Services Corporation is required to reallocate federal funding decennially based on each state's share of the national poverty population. As a result of demographics reported in the 2000 U.S. Census, legal aid providers in some states were to lose as much as \$2 million in federal funds for Fiscal Year 2003 based on shifts in where the greatest numbers of poor Americans reside. Such dramatic budget cuts on already-overtaxed legal aid programs would have caused a crisis, forcing layoffs, office closures, and the denial of services to many of the neediest clients.

In February 2003, Congress allocated an additional \$9.5 million to legal services programs in response to the dramatic shifts in U.S. poverty populations. The final FY03 funding figure was ultimately reduced to \$336.7 million after an across-the-board rescission, and similar across-the-board cuts a year later reduced LSC's FY04 budget to \$335.3 million. Still the small increase was

a revealing barometer of LSC's current political support. The headline that ran in *The Washington Post* after Congress approved the increase: A LITTLE EXTRA FUNDING MEANS A LOT.

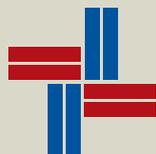
LSC leaders have worked diligently since the passage of sweeping reforms in 1996 to gain bipartisan support in Congress, avoiding controversy and focusing exclusively on the day-to-day legal problems of individual poor clients. Satisfied with LSC's good-faith efforts to embrace the kinds of cases for which widespread political support exists, President George W. Bush declared upon taking office in 2001, "For millions of low-income Americans, LSC-funded legal services is the only resource available to access the justice system."

During the FY03 appropriations process, leaders from both political parties lobbied key appropriators for the LSC increase. Senators Tom Harkin, Pete Domenici, and Gordon Smith led the push for additional resources in the Senate. On the House side,

Congressman Frank Wolf's support for an LSC increase was vital to the passage of the additional \$9.5 million, while other House members pushing for an increase included Reps. Deborah Pryce, Tom Latham, Jose Serrano, Mel Watt, and David Obey.

Senator Harkin, who originally authored the amendment to increase LSC's budget, said, "I believe we all strive to preserve the rights in the Constitution, but those rights are just an empty promise for the millions of Americans who are too poor to hire a lawyer and who lack access to one to assist them in protecting their legal rights. LSC helps fill that gap and we should do all we can to make sure they've got the resources they need to protect the legal rights of the poor."

Senator Domenici, who supported the Harkin amendment and helped defeat a 1995 effort to abolish LSC altogether, said, "I don't think American justice could be considered justice if the poor and those of moderate means have no access to legal representation.



Did You Know?

In the spring of 2004, the two subcommittees in the House of Representatives with jurisdiction over LSC convened hearings. On back-to-back days, March 30th and April 1st, congressional leaders on LSC's House Appropriations panel and its House Judiciary oversight panel praised President Helaine M. Barnett and Chairman Frank B. Strickland for LSC's focus and direction.



"Every American has the right to equal access to the justice system. For low-income people, it becomes especially hard to find adequate legal counsel to help solve important everyday problems, such as housing, employment, and government benefits issues. With the legal aid provided through the grant programs of the LSC, the poor have someone they can turn to in times of crisis."

—Congressman Chris Cannon, Chairman of LSC's House oversight subcommittee

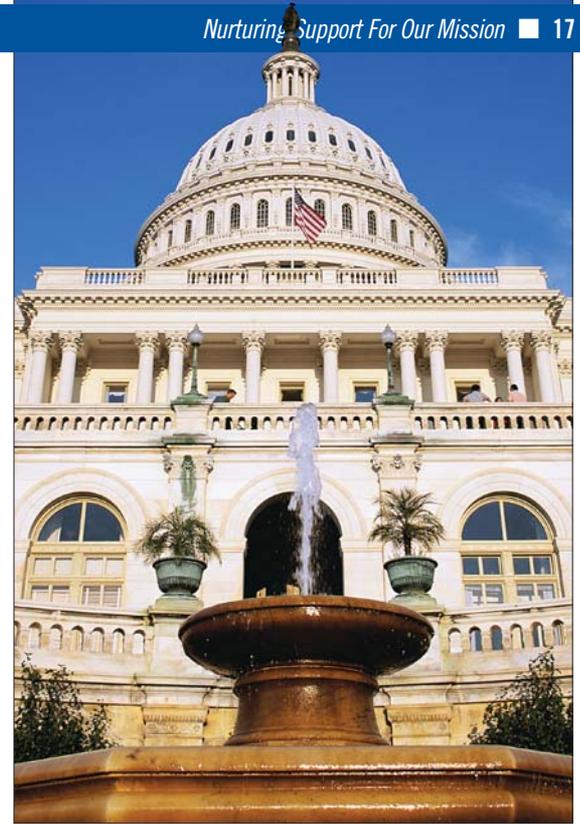
After Congress approved an increase of \$9.5 million for LSC in FY03, a headline in *The Washington Post* read: A LITTLE EXTRA FUNDING MEANS A LOT

The impact legal aid can have on a poor, abused spouse can make all the difference in the world. They can get the legal help they need to start a new and better life.”

In addition to the strong funding support, the mid-term elections of 2002 resulted in a change in the leadership of LSC’s oversight subcommittee. Rep. Chris Cannon was named new Chairman of the House Judiciary Commercial and Administrative Law Subcommittee and declared himself a supporter of LSC’s mission.

Meanwhile, 2003 also brought more positive news from the

nation’s capital. On March 26, the U.S. Supreme Court upheld the constitutionality of the Interest on Lawyers Trust Account (IOLTA) program in Washington state. IOLTA is in place in every state, pooling tiny amounts of interest income generated from short-term and nominal deposits to raise money for the support of equal justice. IOLTA programs, the top source of non-federal funding for legal aid programs, generate an estimated \$150 to \$200 million annually for legal services. The 5-4 decision in the case of *Brown v. Legal Foundation of Washington* averted a funding crisis for LSC grantees nationwide.



HANNAH F. BERKMAN



“I was pleased to note that Congressman Chris Cannon, chairman of your oversight subcommittee, said at yesterday’s hearing, ‘There is a great deal of support for LSC.’ I think he is right, and it is really a major step forward, because I remember not long ago it was very, very difficult to get support.”

—Congressman Jose Serrano to LSC President Helaine M. Barnett and Chairman Frank B. Strickland at a House Appropriations hearing on April 1, 2004.



States Help Fill The Void

Despite LSC's current congressional support, the unmet legal needs of America's poor remain staggering. To qualify for LSC-funded assistance, an individual's annual income cannot exceed \$11,638; a family of four's cannot exceed \$23,563. Yet current federal funding is clearly inadequate to serve the civil legal needs of the more than 45.2 million poor Americans eligible for LSC-funded legal assistance. Millions of eligible clients are forestalled from pursuing justice every year. Still millions more—whose incomes are just above the federal poverty threshold but who nonetheless cannot afford adequate legal representation—are effectively denied access to the U.S. civil justice system as well.

Congressional spending on equal justice has not kept pace with

inflation since LSC achieved its goal of “minimum access” in 1980. It would take an FY04 appropriation of \$683 million—more than double LSC's current budget—to equal the Corporation's 1980 funding level, adjusted for inflation.

To try to keep pace with inflation and reduced federal funding, LSC has spent the last decade emphasizing the importance of increased state contributions to legal services. LSC gratefully acknowledges the leadership and contributions of its national partners—including the American Bar Association, the National Legal Aid and Defender Association, and the Center for Law and Social Policy—in promoting the initiation and development of state justice communities and increased state, local, and private

funding of essential legal services.

Cooperative efforts among stakeholders, when taken together, have resulted in significant, positive changes for low-income clients throughout the country, including the development of additional resources for civil legal services, new and more efficient ways of making legal information and advice available to low-income persons, alternative approaches to serve the rural poor, and more effective and economical structures to assure equal justice for more Americans. A few examples of these successes in 2003 and 2004:

- **Completion of state legal needs studies.** Stakeholders in some states, such as Connecticut, New Jersey, Massachusetts,



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

LSC funding shown in millions of dollars
 Red indicates appropriations adjusted for inflation*
 *Based on Federal Consumer Price Index (1980)

1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
\$92.3	\$125.0	\$205.0	\$270.0	\$300.0	\$321.3	\$241.0	\$241.0	\$275.0	\$305.0	\$292.4	\$305.5	\$305.5	\$308.6
				\$300.0	\$291.3	\$205.8	\$199.4	\$218.1	\$233.6	\$219.8	\$221.6	\$212.8	\$205.0

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



President Nixon signed the LSC Act in 1974. LSC received its first appropriation in Fiscal Year 1976. Over the next four years, LSC's appropriation more than tripled as Congress implemented a plan to fund programs serving the poor in every county in the United States.



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.



Current federal funding is adequate to serve the civil legal needs of only a fraction of the more than 45.2 million poor people eligible for legal assistance.

Tennessee, and Washington, completed comprehensive studies that detailed the extensive unmet legal needs of their low-income populations. These studies, among a variety of uses, are vital resource development tools with state and private funders.

■ **Increases in private and state funding.** Collaborative efforts of

stakeholders, such as those in Maryland and Kentucky, have resulted in a significant increase in state funding for civil legal services providers. Other efforts, in places such as Utah and Arizona, have increased donations to private bar campaigns.

■ **Increased public awareness of the importance of civil legal**

aid. Stakeholders in Texas, Illinois, Oregon, and elsewhere have launched campaigns to educate opinion-makers, legislators, and the general public about the role and value of legal services.

■ **Promotion of *pro bono* activities by the private bar.** States such as Colorado, Illinois, Tennessee, Montana, and Ohio are implementing or exploring the creation of formal, statewide planning structures led or overseen by the judiciary. Others are engaged in efforts to expand *pro bono* services that are led or supported by the organized bar. Congress requires each of LSC's grantees to spend an amount equal to 12.5 percent of their basic field grants on efforts to involve the private bar in the delivery of legal services to eligible clients.

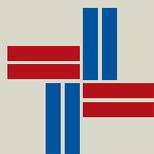
The election of President Clinton and a supportive Congress paved the way for the largest two-year funding increase since LSC's infancy.

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.



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
\$316.6	\$328.2	\$350.0	\$357.0	\$400.0	\$400.0	\$278.0	\$283.0	\$283.0	\$300.0	\$303.8	\$329.3	\$329.3	\$336.7	\$335.3
\$199.6	\$198.6	\$205.6	\$203.6	\$222.4	\$216.3	\$146.0	\$145.3	\$143.1	\$148.4	\$145.4	\$153.2	\$150.8	\$150.8	\$147.3

Bipartisan support for legal services builds, and Congress restores some of the funding cuts. But current funding still equals less than half of LSC's 1980 funding in real dollars. LSC would need an appropriation of \$683 million today to match '80 dollars adjusted for inflation.



“It seems to me that, sometimes, someone who needs legal services actually gets better service than they would if they went to a law firm, because not only are they getting legal service, they are getting people that are more committed than if they just walked in off the street and were billed for the hours.”

Rep. Frank Wolf, Chairman of LSC's House Appropriations Subcommittee

Attracting Leaders Of Tomorrow

Throughout its existence, LSC's greatest strength has been a group of passionate, caring advocates willing to work incredibly long hours for the legal profession's lowest wages so that the neediest in our society are not deprived access to the civil justice system.

Current LSC funding supports approximately 3,700 full-time staff attorneys to help more than 45 million low-income Americans eligible for free legal assistance—or one federally funded legal aid attorney for every 12,216 eligible clients. The average starting salary for legal services lawyers is \$36,000, compared with an average starting salary of approximately \$90,000 for private attorneys at major law firms. This makes it financially difficult to attract talented, young attorneys to the public interest ranks today. Meanwhile, the average educational debt for today's law-school graduates exceeds \$80,000, according to a 2003 American Bar Association study.

Loan repayment assistance programs (LRAPs) are emerging as a way to keep aspiring legal services lawyers from abandoning their desire to pursue public-interest careers. LRAPs offer loan forgiveness, lower interest rates, or forbearances to law school graduates who commit to working in the public interest for a period of years. LRAPs are funded by law schools, bar foundations, state governments, or legal services programs themselves. The number of LRAPs and the funds available in them, however, have not increased appreciably during the past five years, while, according to the ABA study, the average educational debt of law graduates

has more than doubled.

In 2004, LSC established a Task Force on Loan Repayment Assistance charged with helping to develop a pilot LRAP program that could offer limited financial assistance to staff attorneys facing the twin burdens of high law-school debt and low starting salaries. The inspiration for the pilot LRAP came from Congressman Frank Wolf, Chairman of LSC's House Appropriations Subcommittee, who praised the commitment of legal aid lawyers before recommending that \$1 million in FY04 carryover funds be used to establish an LSC pilot loan repayment assistance program. Whether LSC ultimately receives congressional approval to

move forward with the pilot LRAP will be decided in a House-Senate conference committee in late 2004 or early 2005.

In a survey of LSC grantees, more than half of all respondents reported difficulty recruiting and hiring new advocates, while another one-third

reported problems with retaining staff attorneys because of student debt. LSC is currently studying what type of LRAP might best help grantees attract and retain staff. The Corporation hopes to use the pilot to capture the data necessary to determine the feasibility and desirability of establishing a permanent LSC-funded loan repayment program.

Meanwhile, many grantee staff who have worked for legal services programs since the 1960s and '70s continue to lead the equal justice effort today, though they will soon retire and a new generation of leaders will need to step to the fore. LSC is seeking to nurture and train diverse, young leaders to manage and lead

Making the Financial Sacrifice

Average legal aid starting salary	\$36,000
Average LSC staff attorney salary	\$45,000
Average starting salary of private lawyer	\$90,000
Average school debt of law-school graduate	\$80,000+

Sources: 2003 Grant Activity Reports and 2003 ABA survey, "Lifting the Burden"

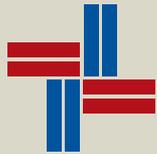
legal aid programs in the years to come. The skills and competencies required to manage and develop legal services programs have evolved with our changing times. LSC is establishing a mentoring and coaching program to help develop the skills that are vital to leading the legal services programs of tomorrow.

In particular, LSC seeks advocates well-suited to respond to the growing diversity of its low-income client population. More than half of LSC clients are racial or ethnic minorities—one-quarter are African-American, 20 percent are Hispanic, and nearly five percent are either of Native American or Asian descent. In 2002, LSC embarked on a partnership with the African-American Project Directors Association to address the

challenges of diversity facing legal services. The collaboration produced LSC’s Leadership and Diversity Advisory Council with a goal of responding to the evolving demographics of legal services programs and their communities. At the June 2004 Board meeting, a proposal was made to establish a pilot mentoring project to develop a group of diverse leaders committed to carrying forward LSC’s national promise to promote equal justice. At the behest of the LSC Board’s Provisions Committee, LSC staff was asked to design a pilot project identifying diverse candidates to participate in a skills-based development and mentoring program to foster the abilities necessary to assume future leadership positions in the legal services community.

2003 LSC Staffing Levels	
Full-time employees	8,281
Full-time staff attorneys	3,699
Full-time paralegals	1,476
Full-time secretaries/clerical workers	1,834
Full-time <i>pro bono</i> coordinators	125
Low-income clients eligible for LSC help	45.2 million
LSC lawyers per eligible poor person	1/12,216

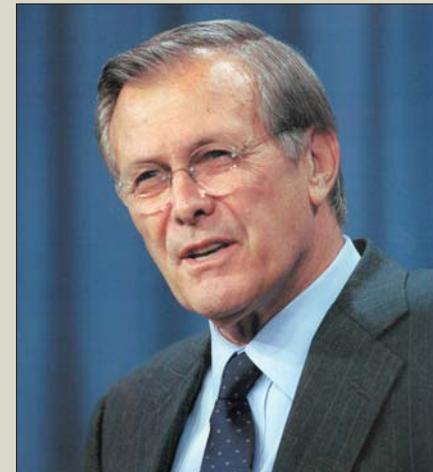
Sources: 2003 LSC Grant Activity Reports and 2000 U.S. Census



Did You Know?

At an ABA annual meeting on August 11, 1970, **Donald H. Rumsfeld**, then Director of the Office of Economic Opportunity, said of legal services lawyers:

“From this unusual group of men and women, young and old, of all races, will come important leadership for the nation in the decade ahead. There is no doubt in my mind that [from the] dedication, the experience, the intellectual capacity, and the raw drive of the lawyers in this program will come not only important service to the poor, but also will come future Presidents of the ABA and the NLADA, future members of Congress, of the courts. . .and conceivably even a future President of the United States. This is truly a most unique collection of talent.”



Complying With The Law

Legal Services Corporation is responsible for the strict enforcement of congressional restrictions on grantee activities and must go to court, if necessary, to defend the constitutionality of restrictions on federally funded legal aid lawyers. In 1996, LSC passed regulations codifying a broad series of limits on the types of activities in which federal grantees may engage, banning class action advocacy, representation of prisoners and most aliens, the use of federal dollars for lobbying or rule-making, the collection of attorney's fees, the acceptance of fee-generating cases, or the challenge of federal welfare laws.

LSC defended one of the restrictions on its grantees all the way up to the U.S. Supreme Court, arguing to uphold the ban on challenging welfare reform laws in *Velazquez v. LSC* (2001). The Justices ultimately ruled against LSC and struck down the ban by a 5-4 vote. In April 2004, LSC returned to court to defend the actions of Congress in *Dobbins v. LSC*, as New York University's Brennan Center for Justice made its second attempt to strike down the 1996 restrictions. In arguments before a federal district judge in New York, LSC once again vigorously argued that Congress was within its right to determine how federal dollars may be spent by recipients of LSC funds. [At this report's printing, a ruling on LSC's motion to dismiss the case had not yet been issued.]

LSC's Office of Compliance and Enforcement (OCE), along with the independent Office of the Inspector General, ensures that LSC-funded programs are in compliance with the LSC Act, regulations,

appropriations riders, and other applicable laws related to the expenditure of federal funds. The OCE conducts oversight and investigative activities and provides detailed accountability and technical training to LSC grantees.

Over the past two years, OCE has conducted 38 reviews of grantees to ensure the integrity of the information being provided to LSC and to verify that no restricted work is being undertaken. During that period OCE has conducted an additional three compliance visits, three onsite technical assistance visits, and four other training visits.

OCE also investigates referrals from the Inspector General and conducts onsite investigations into possible regulatory infractions by LSC grantees. In instances where serious non-compliance is discovered by investigators, OCE requires the submission of corrective action plans and engages in aggressive follow-up to ensure that adequate changes are made and that full compliance is achieved.

The goal of LSC compliance efforts is to identify areas of concern and prevent inappropriate behavior *before* violations occur. OCE offers a two-day, onsite New Director Orientation, upon request, when leadership changes occur at any LSC grantee. OCE provides compliance-related instruction on an ongoing basis to new program managers regarding proper financial oversight, basic regulatory compliance, and other related topics. Any grantee may request assistance, and training is provided in response to any such requests.

Where serious non-compliance is discovered by investigators, LSC requires the submission of corrective action plans and engages in aggressive follow-up to ensure adequate changes are made.

LSC Names New Inspector General

In August 2004, the Board of Directors announced the hiring of Richard "Kirt" West as Inspector General of LSC. For the previous 20 years, West had worked in the Inspector General Offices of three different federal agencies—the Central Intelligence Agency, the Department of Labor, and most recently the United States Postal Service (as Executive

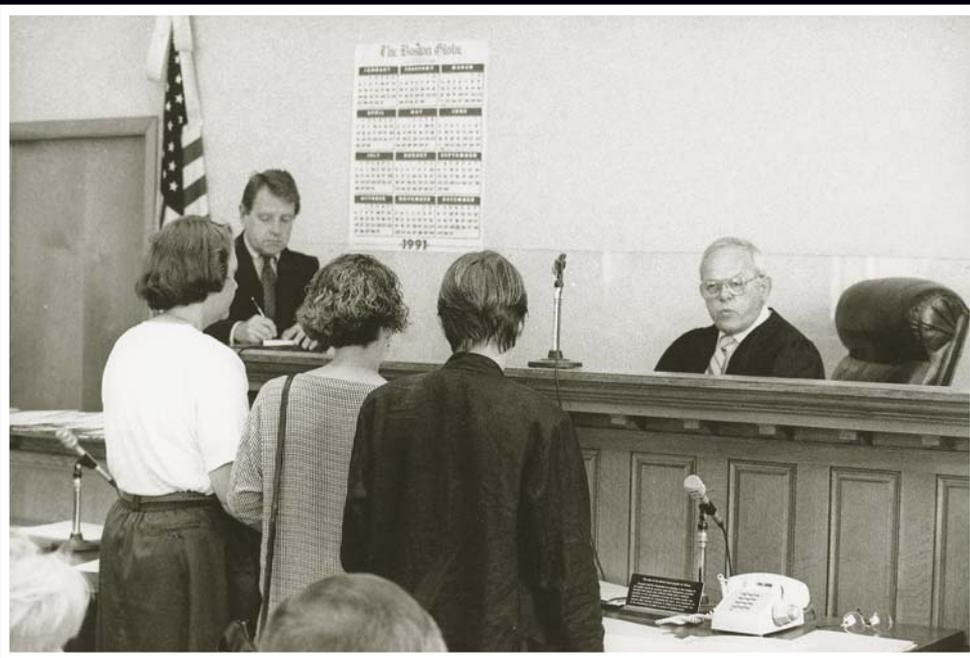
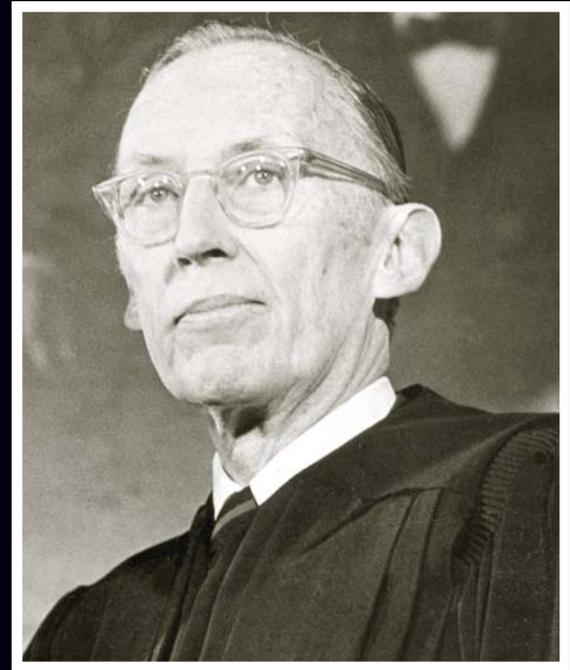


Director of its Inspector General Management Institute).

West is no stranger to the equal justice community. He began his career helping low-income Chicagoans as a case-worker at the Cook County Department of Public Aid, where for nine years he worked closely with the Legal Assistance Foundation of Metropolitan

Chicago. While a student at Northwestern University School of Law, he was active in the school's civil legal clinic, helping low-income clients apply for social security disability and welfare benefits. During his second summer at Northwestern, he worked on litigation at the University of Chicago's Mandel Legal Clinic to ensure children with disabilities had access to a proper education.

The IG reports directly to the LSC Board of Directors. The Office of the Inspector General conducts financial, performance, and other audits and reviews. The IG also investigates allegations of wrongdoing. These fact-finding activities enable the IG to develop recommendations to LSC management and grantees.



Legacy of Service

Justice Lewis Powell (*above*) swore in the first LSC Board of Directors in the 1970s and was a passionate supporter of the national legal services program dating back to his days as President of the American Bar Association in the mid-1960s. Justice Sandra Day O'Connor (*above, left*) swore in several members of the LSC Board in the early '80s. LSC has enjoyed strong Board leadership throughout most of its history and widespread judicial support at the local, state, and federal level.



LSC Open House

In 2003, the Legal Services Corporation held an open house to celebrate the opening of its fully renovated headquarters building housing the national legal services program. Thanks to a generous gift from the Bill & Melinda Gates Foundation and the organizational efforts of the nonprofit Friends of LSC, the country could proudly celebrate a home worthy of its 30-year commitment to equal justice. At the open house, (L to R) LSC Chairman Frank Strickland recognized the contributions of Friends of LSC Chairman Thomas Smegal, while Congresswoman Eleanor Holmes Norton (D-DC) praised LSC for agreeing to be a good corporate neighbor in the District of Columbia.

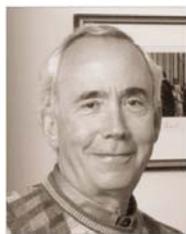




UPPER LEFT: The LSC Board gathers to celebrate LSC's new home. (L to R) LSC Board members Florentino Subia, Mike McKay, Herb Garten, Friends of LSC Chairman Tom Smegal, David Hall, Congresswoman Eleanor Holmes Norton, Frank Strickland, Maria Luisa Mercado, Rob Dieter, and Lillian BeVier. **TOP:** Ernestine Watlington is one of two members from the previous Board who continue to serve, along with Mercado. **MIDDLE:** BeVier and Strickland share words in the new LSC building. **ABOVE:** At the swearing-in of the new LSC Board, U.S. District Judge M. Christina Armijo shakes hands with Thomas Meites as fellow Board members Thomas Fuentes and Garten look on. **LEFT:** Former LSC Vice Chair LaVeeda Morgan Battle chats with former LSC President Alex Forger. **FAR LEFT:** The support of Gates Foundation CEO William H. Gates Sr. was essential to LSC's realization of a permanent home.

LSC Presidents 1974-2004

Eighteen people have held the Presidency of the Legal Services Corporation since 1974, when Congress established the independent, nonprofit LSC to promote equal access to justice for Americans unable to afford civil legal representation. The LSC President is appointed by an 11-member Board of Directors chosen by the President of the United States and confirmed by the U.S. Senate.



Thomas Ehrlich
1976 - 1979



Alice Daniel
1979



Dan J. Bradley
1979 - 1982



Gerald M. Caplan
1982



Clint Lyons
1982



Donald P. Bogard
1982 - 1985



Thomas J. Opsut
1985



James H. Wentzel
1985 - 1987



John H. Bayly
1987 - 1988



Terrance J. Wear
1988 - 1990



Emilia DiSanto
1990



David H. Martin
1990 - 1991



John P. O'Hara
1991 - 1993



Alexander D. Forger
1994 - 1997



Martha Bergmark
1997



John McKay
1997 - 2001



John N. Erlenborn
2001 - 2004



Helaine M. Barnett
2004 -



FINANCIAL STATEMENTS

Fiscal Year 2003

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of net assets and governmental fund balance sheet of Legal Services Corporation ("LSC") as of September 30, 2003 and 2002 and the related statements of activities and governmental fund revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of LSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSC as of September 30, 2003 and 2002 and the results of its operations and changes in its fund balance for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis for the year ended September 30, 2003 on pages 28-30 is required supplementary information in accor-

dance with the Governmental Accounting Standards Board and precedes the basic financial statements. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2004 on our consideration of LSC'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 & Company, P.C.
April 7, 2004

Management's Discussion and Analysis : September 30, 2003

Overview of the Financial Statements

This annual report presents LSC's financial activities and position in three parts: 1) management's discussion and analysis (this section); 2) the basic comparative financial statements; and 3) notes to the financial statements. Management's discussion and analysis introduces the basic financial statements and provides a quick review of the overall financial positions.

The Statement of Net Assets and Governmental Fund Balance Sheet reports the net assets available to pay outstanding liabilities. The resulting balance is the amount of funds available to support next year's operations. The next statement is titled Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and provides the results of current year's operation.

The financial statements of LSC includes one discretely presented component unit in its report, the Friends of the Legal Services Corporation ("FoLSC"), a non-profit organization incorporated in the District of Columbia which is a separate legal entity. FoLSC was formed in 2001 for the purposes of raising funds to provide support for all aspects of LSC's mission, and to acquire, hold and manage assets for use by LSC, where doing so may result in lower costs or greater efficiencies for LSC. The results of FoLSC operations are available in separately issued financial statements.

Financial Highlights

LSC receives its support from federal appropriations and its derivative income, which are LSC's until expended, and a grant from the U.S. Court of Veterans Appeals. Any remaining funds from one year's budget are included in the next year's budget to support the next year's activities. The result of operations in 2003 yielded an increase to the net assets in the amount of \$1,551,029. When this amount, which is shown in the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances, is added to the prior year's balance, the year-end net assets total \$4,474,278. This compares to the net assets increase in 2002 totaling \$724,350 and year-end net assets of \$2,923,249.

Financial Analysis of the Legal Services Corporation

The financial statements of LSC are a series of related reports that detail financial information using accounting methods similar to those used by other non-profit entities. When reviewing the following condensed net assets table you will note that the difference between total assets and total liabilities is \$4,474,278 as of September 30, 2003, which compares to \$2,923,249 at September 30, 2002. Net investment in capital assets in FY 2003 and FY 2002 totals \$880,074 and \$752,568, respectively. The results of operation as of September 30, 2003 shows a Fund Balance of \$3,594,204, compared to \$2,170,681 as of September 30, 2002.

Table 1
Statement of Net Assets

September 30	2003	2002
Current and other assets	\$ 66,372,955	\$ 65,544,969
Net property and equipment	880,074	752,568
Total assets	\$ 67,253,029	\$ 66,297,537
Grants and contracts payable	\$ 58,098,799	\$ 56,842,572
Other liabilities	1,403,744	1,789,515
Deferred revenue	3,276,208	4,742,201
Total liabilities	62,778,751	63,374,288
Net assets		
Fund balance	3,594,204	2,170,681
Investment in capital assets	880,074	752,568
Total net assets	4,474,278	2,923,249
Total liabilities and net assets	\$ 67,253,029	\$ 66,297,537

Table 2
Change in Net Assets

Years ended September 30,	2003	2002
Revenue		
Federal appropriations	\$ 336,645,488	\$ 329,300,000
Grant revenue	2,081,616	895,540
General revenues		
Change in deferred revenue	1,448,933	198,596
Interest and other income	131,893	131,154
Total revenue	340,307,930	330,525,290
Expenses		
Program activities	323,359,292	315,507,796
Support activities	15,397,609	14,293,144
Total expenses	338,756,901	329,800,940
Change in net assets	1,551,029	724,350
Net assets, beginning of the year	2,923,249	2,198,899
Net assets, end of year	\$ 4,474,278	\$ 2,923,249

Table 2 provides a concise review of each year's operating results. In FY 2003, the support from appropriations, grant funds from the U.S. Court of Veterans Appeals, and other revenues totaled \$340,307,930. The program activities of \$323,359,292 comprised of grants, contracts, and grant reimbursable expenses, and are shown in detail in the budget and expenses information in Table 6. A breakdown of the supporting activities of \$15,397,609 is shown in Table 5. The combination of the revenue minus expenses yielded an excess of revenue over expenses of \$1,551,029. In FY 2002: support totaled \$330,525,290; expenses for program activities and support activities were \$315,507,796 and \$14,293,144, respectively, which resulted in revenue over expenses of \$724,350.

Capital Assets and Long-term Debt

Categories of capital assets are reported in Table 3. There is no short or long term debt activity regarding capital assets.

Table 3

Capital Assets		
September 30,	2003	2002
Furniture and Equipment	\$ 626,496	\$ 669,521
Software	68,504	83,047
Leasehold Improvements	185,074	0
Total Capital Assets (net)	\$ 880,074	\$ 752,568

General Fund Budgetary Analysis

As defined by the Legal Services Corporation Act, LSC's mission is to promote equal access to the system of justice and improve opportunities for low-income people throughout the United States by making grants for the provision of high-quality civil legal assistance to those who would be otherwise unable to afford legal counsel. To accomplish this mission, the LSC Board of Director's established a multi-year strategic plan, called "Strategic Directions" in January of 2000. The strategic plan states that:

By 2004, LSC will dramatically increase the provision of legal services to eligible persons.

By 2004, LSC will ensure that eligible clients are receiving appropriate and high-quality legal assistance.

To advance these Strategic Directions, LSC's budget process involves an approach to maximize the availability of funds. To ensure that goals set in the Strategic Directions are being met, each Vice President reviews his/her offices' monthly activities and expenditures, and at the end of each quarter a review is completed to include a projection of future spending. The President analyzes this information and then prepares and presents a report to the Board of Directors with his recommendations. The LSC Inspector General reports directly to the Board of Directors and provides similar information for the Board. These combined presentations afford the Board an opportunity to review each office's budget versus actual expenses and operating projections, and to make internal budgetary adjustments to advance the Strategic Directions. The following table illustrates the original and revised operating budget for FY 2003.

Table 4
Original and Revised FY 2003 Operating Budgets

Budget Category	Original Budget	Final Budget	Variance
Compensation/benefits	\$ 10,958,291	\$ 10,862,541	\$ 95,750
Temporary employee pay	254,499	316,299	(61,800)
Consulting	2,382,401	2,376,701	5,700
Travel/transportation expenses	1,066,345	1,055,895	10,450
Communications	219,841	250,491	(30,650)
Occupancy cost	1,548,000	1,546,000	2,000
Printing and reproduction	211,450	226,550	(15,100)
Other operating expenses	683,590	676,265	7,325
Capital expenditures	692,960	706,635	(13,675)
Total	\$ 18,017,377	\$ 18,017,377	\$ 0

During the year, funds became available in the Compensation and Benefits budget category because of open positions and staff that were on extended leave without pay. When these funds were identified, some of them were moved to support other activities that aligned with the Strategic Directions, such as augmenting the state planning process by hiring temporary employees. Other funds were needed to support communications, printing and reproduction for the Equal Justice Magazine, and capital expenditures.

The next table shows the final budget versus the expenditures for FY 2003, as well as the unexpended balance. These unexpended funds are derived for a number of reasons. Among these were the circumstances surrounding the nomination of a new Board of Directors, and the need to conduct position searches for a new President and Inspector General. Additionally, a number of positions remained open during the year and a couple of staff members were on extended leave without pay. Some projects that began early in the year have not been completed. The unexpended balances will be used to support the continuation of these projections and support next year's activities.

Table 5
FY 2003 Operating Budget versus Actual Expenditures

Budget Category	Final Budget	Expenditures	Unexpended Balance
Compensation/benefits	\$ 10,862,541	\$ 10,031,026	\$ 831,515
Temporary employee pay	316,299	283,262	33,037
Consulting	2,376,701	1,469,059	907,642
Travel/transportation	1,055,895	858,433	197,462
Communications	250,491	182,875	67,616
Occupancy cost	1,546,000	1,529,406	16,594
Printing and reproduction	226,550	161,645	64,905
Other operating expenses	676,265	489,364	186,901
Capital expenditures	706,635	522,546	184,089
Subtotals	\$ 18,017,377	15,527,616	2,489,761
Depreciation and amortization		356,910	(356,910)
Loss on disposal of assets		(175)	175
Less: capitalized assets		(486,742)	486,742
Totals		\$ 15,397,609	\$ 2,619,768

There were no adjustments to the program budget lines after adoption by the Board of Directors. The unexpended balances of the Basic Field Programs, U.S. Court of Veterans Appeals, and the Technology Initiatives are combined in the financial statements as deferred revenues. They are shown as deferred revenue because the projects are restricted by legislation, therefore unearned until the projects are completed.

The amount shown for Grants of Other Funds Available are monies that have been earmarked for unanticipated and/or emergency program needs, and are included in the restricted net assets total.

Table 6
FY 2003 Program Budget versus Actual

Programs	Budget	Expenditures	Unexpended Balances
Basic Field Programs	\$ 317,573,076	\$ 317,413,951	\$ 159,125
U.S. Court of Veterans Appeals Funds	1,112,581	1,062,060	50,521
Grants From Other Funds Available	1,028,996		1,028,996
Technology Initiatives	7,949,842	4,883,281	3,066,561
Total	\$ 327,664,495	\$ 323,359,292	\$ 4,305,203

Future Events

LSC facilitates and approves structural changes in states in order to develop more effective and economical legal services delivery systems. This work will continue with consolidation of some service areas and programs to maximize economies of scale, evenly distribute access to services, and broaden the delivery of the services available to low-income clients. LSC also provides technical assistance to many states to assist them in planning and implementing the structural and service delivery changes necessary to achieve state planning goals.

LSC works on other initiatives to support its grantees and to improve the quality and accessibility of services, including the use of technology to promote and facilitate access to legal services. Some of LSC's efforts include: continuing program visits to discover innovative procedures that may serve as models for other programs; working with newly reconfigured service areas to ensure the development of comprehensive delivery systems throughout enlarged geographic areas; and training to legal services lawyers on the use of the internet and other resources for poverty law research.

LSC recognizes the importance of and continues to monitor its grantees for compliance with federal law and LSC regulations. Although the majority of onsite reviews by the Office of Compliance and Enforcement ("OCE") are regulatory investigations, OCE also conducts technical assistance reviews, accountability trainings and new executive director's training to help the programs to understand and better comply with regulations.

LSC has focused its resources for FY 2004 to continue to advance these efforts. The appropriation of \$338,848,000 was subject to two rescissions, which made the net appropriation equal \$335,282,450. With this appropriation, the FY 2003 carryover that includes restricted and unrestricted net assets and deferred revenue, projected FY 2004 income from interest income and the Equal Justice Magazine and a grant from the United States Court of Veterans Appeals, LSC will be able to maintain effective operations.

Basic Financial Statements

LEGAL SERVICES CORPORATION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2003

	General Fund	Adjustments (Note A)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 66,157,906		\$ 66,157,906
Accounts receivable	17,329		17,329
Prepaid expenses and deposits	197,720		197,720
Capital assets (net)		880,074	880,074
Total assets	\$ 66,372,955	\$ 880,074	\$ 67,253,029
LIABILITIES			
Grants and contracts payable	\$ 58,098,799		\$ 58,098,799
Accounts payable	595,377		595,377
Accrued vacation and other liabilities	808,367		808,367
Deferred revenue	3,276,208		3,276,208
Total liabilities	\$ 62,778,751		\$ 62,778,751
FUND BALANCE/NET ASSETS			
Fund balances:			
Reserved	1,362,877		
Unreserved	2,231,327		
Total fund balances	3,594,204		
Total liabilities and fund balances	\$ 66,372,955		
Net assets:			
Invested in capital assets, net			
of related debt		880,074	880,074
Restricted		3,594,204	3,594,204
Total net assets		\$ 4,474,278	4,474,278
TOTAL LIABILITIES & NET ASSETS			\$ 67,253,029

Note A: Reconciliation of fund balance to total net assets.

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance	\$ 3,594,204
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund financial statements	880,074
Total net assets	\$ 4,474,278

See accompanying notes and Independent Auditors' Report.

LEGAL SERVICES CORPORATION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 20, 2002

	General Fund	Adjustments (Note A)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 65,061,615		\$ 65,061,615
Due from employees	19,910		19,910
Prepaid expenses and deposits	463,444		463,444
Capital assets (net)		752,568	752,568
Total assets	\$ 65,544,969	\$ 752,568	\$ 66,297,537
LIABILITIES			
Grants and contracts payable	\$ 56,842,572		\$ 56,842,572
Accounts payable	707,122		707,122
Accrued vacation and other liabilities	1,082,393		1,082,393
Deferred revenue	4,742,201		4,742,201
Total liabilities	\$ 63,374,288		\$ 63,374,288
FUND BALANCE/NET ASSETS			
Fund balances:			
Reserved	407,607		
Unreserved	1,763,074		
Total fund balances	2,170,681		
Total liabilities and fund balances	\$ 65,544,969		
Net assets:			
Invested in capital assets, net			
of related debt		752,568	752,568
Restricted		2,170,681	2,170,681
Total net assets		\$ 2,923,249	2,923,249
TOTAL LIABILITIES AND NET ASSETS			\$ 66,297,537

Note A: Reconciliation of fund balance to total net assets.

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance	\$ 2,170,681
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund financial statements	752,568
Total net assets	\$ 2,923,249

See accompanying notes and Independent Auditors' Report.

LEGAL SERVICES CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2003

	General Fund	Adjustments (Note A)	Statement of Activities
EXPENDITURES/EXPENSES			
Grants	\$ 323,359,292		\$ 323,359,292
Board of Directors	202,489		202,489
Executive Office	823,292		823,292
Legal Affairs	1,099,548		1,099,548
Governmental Relations and Public Affairs	685,458		685,458
Human Resources	496,205		496,205
Financial and Administrative Services	2,777,973	(73,988)	2,703,985
Information Technology	1,204,220	(178,948)	1,025,272
Program Performance	2,955,809	(8,870)	2,946,939
Information Management	732,886	(12,856)	720,030
Compliance and Enforcement	2,257,754		2,257,754
Office of Inspector General	2,289,481	(209,754)	2,079,727
Depreciation / Amortization		356,910	356,910
Total expenditures/expenses	\$ 338,884,407	\$ (127,506)	\$ 338,756,901
PROGRAM REVENUES			
Federal Appropriation	336,645,488		336,645,488
U.S. Court of Veterans Appeals Funds	2,081,616		2,081,616
Change in deferred revenue	1,448,933		1,448,933
Total program revenue	\$ 340,176,037		\$ 340,176,037
GENERAL REVENUES			
Interest and other income	131,893		131,893
Total general revenues	\$ 131,893		\$ 131,893
Excess of revenues over expenditures	1,423,523	(1,423,523)	
Change in net assets		1,551,029	1,551,029
Fund balance/net assets:			
Beginning of the year	2,170,681		2,170,681
Invested in capital assets, net		752,568	752,568
End of the year	\$ 3,594,204	\$ 880,074	\$ 4,474,278

See accompanying notes and Independent Auditors' Report.

LEGAL SERVICES CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2003

Note A: Reconciliation of the statements of revenues, expenditures, and changes in fund balance of governmental funds in the statement of activities.

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenues over expenditures	\$ 1,423,523
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense during the current period.

127,506

Change in net assets	\$ 1,551,029
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Fund balance:

Beginning of year	\$ 2,170,681
Net change	1,423,523
End of year	3,594,204
	\$ 3,594,204

To include capital assets (net) used in governmental activities in the statement of activities, which are not reported in fund financial statements

Excess of revenues over expenditures	(1,423,523)
Change in net assets	1,551,029
Capital assets, beginning	752,568
Capital assets (net)	\$ 880,074
	880,074

Total net assets	\$ 4,474,278
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See accompanying notes and Independent Auditors' Report.

LEGAL SERVICES CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2002

	General Fund	Adjustments (Note A)	Statement of Net Assets
EXPENDITURES/EXPENSES			
Grants	\$ 315,507,793		\$ 315,507,793
Board of Directors	187,139		187,139
Executive Office	813,617		813,617
Legal Affairs	706,002		706,002
Governmental Relations and Public Affairs	633,349		633,349
Human Resources	501,395		501,395
Financial and Administrative Services	2,380,812	(37,291)	2,343,521
Information Technology	1,280,162	(183,492)	1,096,670
Program Performance	2,994,641		2,994,641
Information Management	794,042		794,042
Compliance and Enforcement	2,129,261		2,129,261
Office of Inspector General	1,820,717	(88,473)	1,732,244
Depreciation / Amortization		361,266	361,266
Total expenditures/expenses	329,748,930	52,010	329,800,940
PROGRAM REVENUES			
Federal Appropriation	329,300,000		329,300,000
U.S. Court of Veterans Appeals Funds	895,540		895,540
Change in deferred revenue	198,596		198,596
Total program revenue	330,394,136		330,394,136
GENERAL REVENUES			
Interest and other income	131,154		131,154
Total general revenues	131,154		131,154
Excess of revenues over expenditures	776,360	(776,360)	-
Change in net assets		724,350	724,350
Fund balance/net assets:			
Beginning of the year	2,198,899		2,198,899
Adjustment for GASB 34 implementation	(804,578)	804,578	
End of the year	\$ 2,170,681	\$ 752,568	\$ 2,923,249

See accompanying notes and Independent Auditors' Report.

LEGAL SERVICES CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
Year ended September 30, 2002

Note A: Reconciliation of the statements of revenues, expenditures, and changes in fund balance of governmental funds in the statement of activities.

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenues over expenditures	\$ 776,360
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays during the current period. (52,010)

Change in net assets	\$ 724,350
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Prior period adjustment of net investment in capital assets for initial GASB-34 implementation

Fund balance:			
Beginning of year	\$ 2,198,899		
Net change	776,360		
Prior period adjustment	(804,578)		
End of year	\$ 2,170,681		\$ 2,170,681

To include capital assets (net) used in governmental activities in the statement of activities, which are not reported in fund financial statements

Excess of revenues over expenditures	\$ (776,360)		
Change in net assets	724,350		
Prior period adjustment	804,578		
Capital assets (net)	\$ 752,568		\$ 752,568

Total net assets			\$ 2,923,249
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See accompanying notes and Independent Auditors' Report.

Notes To The Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. Reporting Entity: LSC is a private non-membership District of Columbia nonprofit corporation, established by Congress in the Legal Services Corporation Act of 1974, Public Law 93-355, and amended in 1977 by Public Law 95-222. The purpose of LSC is to provide financial support to independent organizations that directly provide legal assistance in non-criminal proceedings or matters to persons financially unable to afford such counsel.

These financial statements present Legal Services Corporation (the primary government) and Friends of Legal Services Corporation (the component unit). As defined in Statement No. 39 of the Governmental Accounting Standards Board (GASB), component units are legally separate entities that are included in LSC's reporting entity because of the significance of their operating or financial relationships with LSC.

Friends of the Legal Services Corporation was incorporated under the Nonprofit Corporation Act in the District of Columbia in 2001. The purpose of this component unit is to raise and provide funds to support all aspects of the missions of the Legal Services Corporation. Friends of the Legal Services Corporation may also acquire, hold, and manage assets for use by LSC where doing so may result in lower costs or greater efficiencies for LSC. Friends of the Legal Services is a discretely presented component unit using the condensed financial statement approach in the disclosure notes. Separate financial statements of the component unit may be obtained from the Legal Services Corporation Comptroller. Friends of the Legal Services Corporation is reported as a discrete component unit due to the nature and significance of its relationship with the primary government such that exclusion would cause the reporting entity's financial statements to be incomplete.

2. Financial Statement Presentation: LSC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. LSC's Management's Discussion and Analysis ("MD&A") is considered to be required supplemental data and precedes the financial statements.

GASB Statement No. 34 requires that governmental financial statements include a government-wide Statement of Net Assets and Statement of Activities (reporting LSC as a whole) and fund financial statements that include a Governmental Fund Balance Sheet and a Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (reporting financial transactions of LSC's major fund). LSC is a special purpose government engaged in a single governmental program and as such may combine its fund financial statements with its government-wide statements. A summary reconciliation of the fund financial data with the government-wide data is presented on the combined financial statements.

LSC has no proprietary or fiduciary funds; therefore, no cash flows or fiduciary statements are presented.

3. Basis of Accounting: The basis of accounting refers to the point at which revenues and expenses are recognized. It relates to the timing of the measurements made regardless of the measurement focus used.

The government-wide statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The fund financial statements are presented on a modified basis of accrual. Revenues are recorded when both measurable and available, which means collectible within the current period or within 60 days after year end. Expenditures are recognized when the related liability is incurred. The focus in the fund statements is on sources and uses of resources rather than on net income.

4. Property and Equipment: Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years.

5. 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 LSC for its fiscal year.

6. Revenues: The federal appropriations are reported as program revenue in the period expended. The appropriation remains available until expended.

7. Fund Balance/Net Assets: The fund balance reserved, reports the fund balance that is legally identified for specific uses. The Board of Directors, through its fund allocation process, has designated \$1,362,877 and \$407,607 of the fund balance for continuing programs and administrative activities as of September 30, 2003 and 2002, respectively. Net assets are reported as restricted due to constraints imposed for their use by Congressional appropriation legislation.

8. 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 LSC for failure to comply with other regulatory requirements.

9. 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.

10. Income Taxes: LSC is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, except for unrelated business income.

11. Concentration of Revenue: LSC receives substantially all of its revenue from direct federal appropriations.

12. 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.

NOTE B - 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 LSC's account held by the U.S. Treasury. Cash at September 30, 2003 and 2002, consists of the following:

	2003	2002
Cash in financial institutions	\$31,937,383	\$31,212,553
Cash in U.S. Treasury	34,220,523	33,849,062
Total	\$66,157,906	\$65,061,615

NOTE C - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at September 30, 2003:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	\$1,711,211	\$ 258,601	\$ (313,135)	\$ 1,656,677
Software	263,222	22,504		285,726
Leasehold improvements	296,120	205,637		501,757
Subtotal	2,270,553	486,742	(313,135)	2,444,160
Less: Accumulated depreciation	(1,517,985)	(356,911)	310,810	(1,564,086)
Capital assets (net)	\$752,568	\$129,831	\$(2,325)	\$880,074

Property and equipment consists of the following at September 30, 2002:

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	\$1,842,063	\$ 277,301	\$ (408,153)	\$ 1,711,211
Software	230,881	32,341		263,222
Leasehold improvements	296,120			296,120
Subtotal	2,369,064	309,642	(408,153)	2,270,553
Less: Accumulated depreciation	(1,564,486)	(361,266)	407,767	(1,517,985)
Capital assets (net)	\$ 804,578	\$ (59,624)	\$ (386)	\$ 752,568

Depreciation expense for the years ended September 30, 2003 and 2002 are \$356,910 and \$361,266, respectively.

NOTE D - GRANT REVENUE:

LSC 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, 2003 and 2002 are \$2,081,616 and \$895,540, respectively.

NOTE E - GRANT AND CONTRACTS EXPENSE:

Grant funding provided to the Legal Services Corporation, pursuant to Public Law 107-77, was for basic field programs. Grant and contracts expense for the years ended September 30, 2003 and 2002 consists of the following:

	2003	2002
Basic field programs	\$317,413,951	\$309,994,072
U.S. Court of Veterans Appeals fund	1,062,060	895,540
Technology Initiatives	4,883,281	4,605,063
Grant from other funds		13,121
Totals	\$323,359,292	\$315,507,796

NOTE F - RETIREMENT PLANS:

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988 are participants in the Civil Service Retirement System ("CSRS"), although they are neither officers nor employees of the federal government. The CSRS plan is administered by the United States Office of Personnel Management ("OPM"). LSC makes 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 LSC and by LSC employees represents the amount which must be financed directly by OPM. LSC 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. LSC 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.

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

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 LSC'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. LSC matches the first 2.51% contributed by the employee. In addition, LSC contributes 6% of each eligible employee's salary regardless of their participation to the maximum permitted under federal income tax rules.

LSC's contributions to these plans for the years ended September 30, 2003 and 2002 were \$679,725 and \$625,324 respectively. These amounts are included in supporting activities for management and administration expenses.

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

NOTE G - LEASES:

1. Operating Leases: During FY 2003, LSC terminated an existing lease for its headquarters office space. The original lease term was June 1, 1992 through May 31, 2002, but was extended through May 31, 2007. Under the agreement, LSC had termination rights any time after May 2003 if certain conditions were met, and providing nine months notice. On August 30, 2002, LSC provided written notification of its intent to terminate. The lease was terminated June 1, 2003 and a lease termination fee in the amount of \$149,680 was paid.

On June 1, 2003, LSC commenced a lease agreement for new office space. The lease agreement provides for a non-escalating annual base rent for a 10-year term and has no obligation to pay a portion of building operating expenses. LSC has the right to terminate the lease by giving no less than 120-day prior written notice in the event that LSC does not receive an appropriation from Congress for administrative costs sufficient to cover LSC and its rental obligations for any period during the term of the lease. The lessor is the component unit, Friends of the Legal Services Corporation. Future minimum lease payments required under this lease are as follows:

	Amount
September 30, 2004	\$ 1,710,000
2005	1,710,000
2006	1,710,000
2007	1,710,000
2008	1,710,000
Thereafter	7,980,000
Total	\$ 16,530,000

Rental expense for the years ended September 30, 2003 and 2002 is \$1,517,009 and \$1,111,498, respectively.

NOTE H - CONTINGENCIES:

1. Grants and Contracts: LSC 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, LSC provides significant funding to several independent organizations, which are subjected to their own independent audits and audits by LSC.

LSC'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.

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

NOTE I - COMMITMENTS:

1. LSC has commitments related to 5 consulting contracts for \$343,581, and 3 employment agreements for \$166,378 as of September 30, 2003.

NOTE J – COMPONENT UNIT CONDENSED FINANCIAL STATEMENTS:

Component unit information for Friends of the Legal Services Corporation, a non-profit corporation, is provided in the following condensed financial statements as of September 30, 2003 and 2002. Complete financial statements of the component unit may be obtained from the Legal Services Corporation Comptroller.

Condensed Statement of Net Assets

September 30, 2003 and 2002

Assets:	2003	2002
Cash, accounts receivable and other assets	\$3,592,130	\$3,042,415
Capital assets (net)	17,182,175	14,845,403
Total assets	20,774,305	17,887,818
Liabilities:		
Accounts payable and other current liabilities	285,104	203,860
Long-term liabilities		
Due within one year	250,000	44,845
Due after one year	16,711,923	13,899,888
Total liabilities	17,247,027	14,148,593
Net assets:		
Temporarily restricted	2,709,066	2,709,066
Unrestricted	818,212	1,030,159
Total net assets	\$3,527,278	\$3,739,225

Condensed Statement of Activities

Years Ended September 30, 2003 and 2002

Expenses:	2003	2002
Building operating	\$725,132	\$141,927
Mortgage interest expense	265,765	33,202
General and administrative	14,719	258,453
Other: depreciation and amortization	443,740	89,457
Total expenses	1,449,356	523,039
Revenues:		
Contributions	70,403	4,085,305
Rent	1,139,557	160,609
Interest	27,309	9,066
Other income	140	7,284
Total revenues	1,237,409	4,262,264
Excess of revenues over expenses	(211,947)	3,739,225
Net assets - beginning	3,739,225	0
Net assets - ending	\$3,527,278	\$3,739,225

Acting Inspector General and Board of Directors
Legal Services Corporation
Washington, D.C.

**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 as of and for the year ended September 30, 2003, and have issued our report thereon dated April 7, 2004. 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 LSC'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 LSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned

functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of LSC in a separate letter dated April 7, 2004.

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 & Company, P.C.
April 7, 2004

BOARD OF DIRECTORS



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 143 independent local programs that provide civil legal assistance to those who otherwise would be unable to afford it.

Legal Services Corporation 2003-2004 Annual Report

Written by
Eric Kleiman
Pat Hanrahan

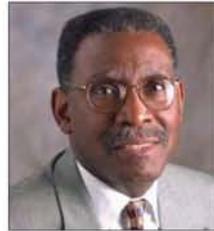
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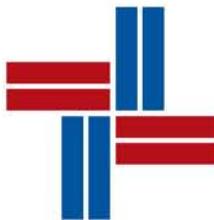
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Lillian R. BeVier, *Vice Chairman*
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Thomas R. Meites



Maria L. Mercado
Florentino Subia
Ernestine P. Watlington

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LEGAL SERVICES CORPORATION

 **LSC** 2003-2004 ANNUAL REPORT
America's Partner For Equal Justice