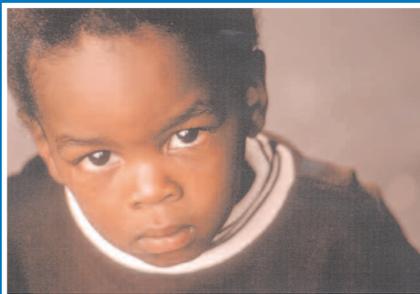
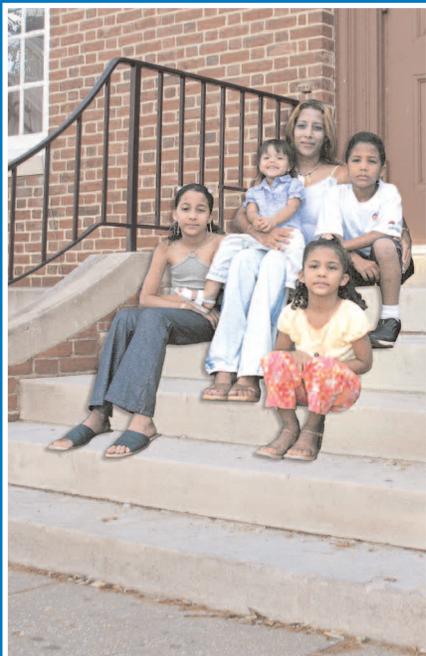


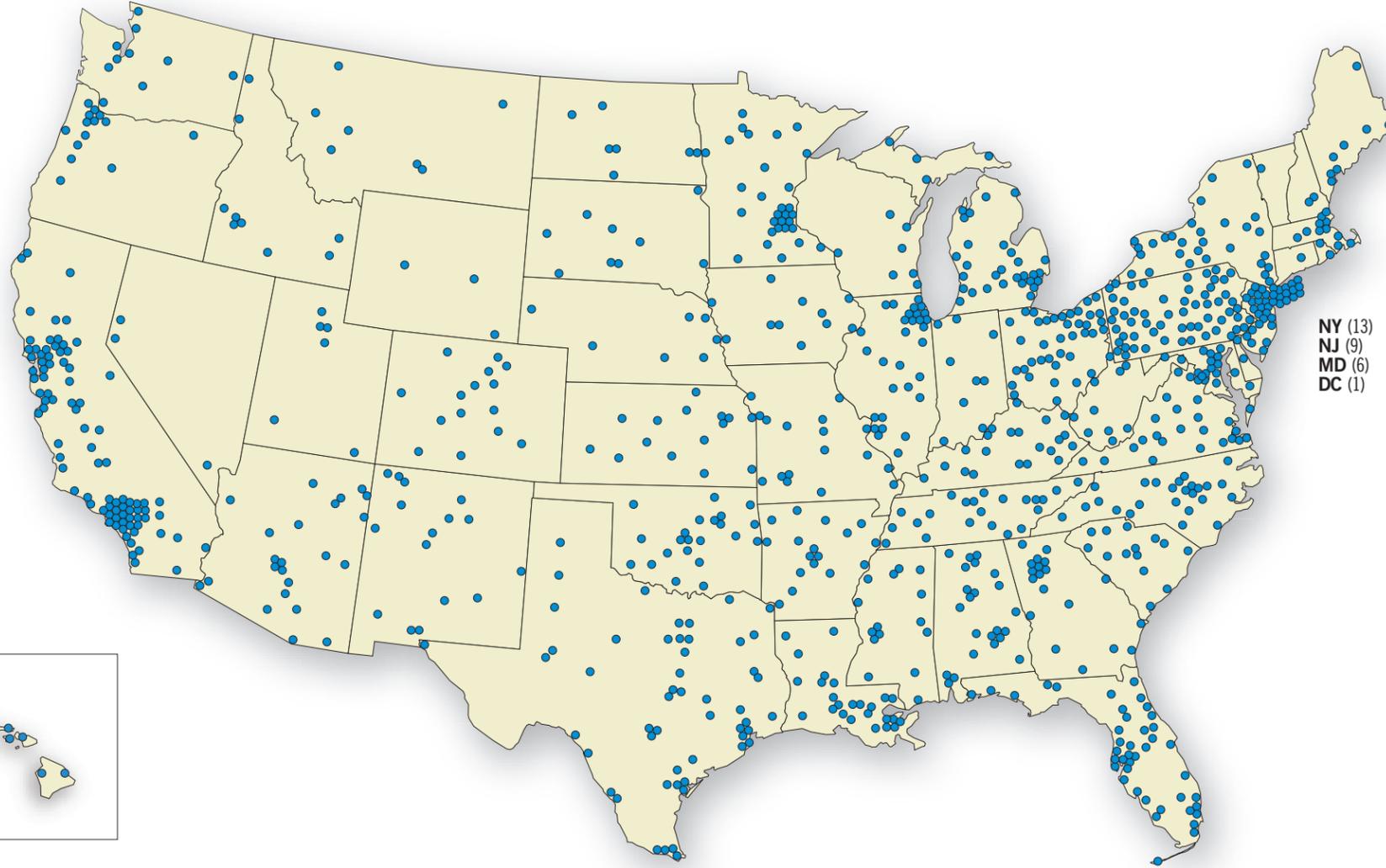
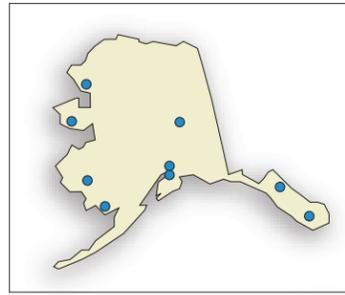
2008 Annual Report



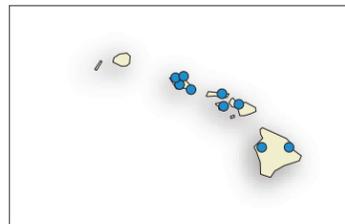
**Serving the
Most Vulnerable
Among Us**

LSC from Coast to Coast

The Legal Services Corporation provides grants to 137 independent, nonprofit organizations that provide free civil legal services to low-income Americans from 918 offices located in every state, the District of Columbia and the territories of the United States of America.



NY (13)
NJ (9)
MD (6)
DC (1)



ALABAMA

Legal Services Alabama

ALASKA

Alaska Legal Services Corporation

ARIZONA

Community Legal Services

DNA-Peoples Legal Services

Southern Arizona Legal Aid

ARKANSAS

Center for Arkansas Legal Services

Legal Aid of Arkansas

CALIFORNIA

Bay Area Legal Aid

California Indian Legal Services

California Rural Legal Assistance

Central California Legal Services

Greater Bakersfield Legal Assistance

Inland Counties Legal Services

Legal Aid Foundation of Los Angeles

Legal Aid Society of Orange County

Legal Aid Society of San Diego

Legal Services of Northern California

Neighborhood Legal Services of Los Angeles County

COLORADO

Colorado Legal Services

CONNECTICUT

Statewide Legal Services of Connecticut

DELAWARE

Legal Services Corporation of Delaware

DISTRICT OF COLUMBIA

Neighborhood Legal Services Program of the District of Columbia

FLORIDA

Bay Area Legal Services

Coast to Coast Legal Aid of South Florida

Community Legal Services of Mid-Florida

Florida Rural Legal Services

Legal Services of Greater Miami

Legal Services of North Florida

Three Rivers Legal Services

GEORGIA

Atlanta Legal Aid Society

Georgia Legal Services Program

HAWAII

Legal Aid Society of Hawaii

IDAHO

Idaho Legal Aid Services

ILLINOIS

Land of Lincoln Legal Assistance Foundation

Legal Assistance Foundation of Metropolitan Chicago

Prairie State Legal Services

INDIANA

Indiana Legal Services

IOWA

Iowa Legal Aid

KANSAS

Kansas Legal Services

KENTUCKY

Appalachian Research and Defense Fund of Kentucky

Kentucky Legal Aid

Legal Aid of the Blue Grass

Legal Aid Society

LOUISIANA

Acadiana Legal Service Corporation

Capital Area Legal Services Corporation

Legal Services of North Louisiana

Southeast Louisiana Legal Services Corporation

MAINE

Pine Tree Legal Assistance

MARYLAND

Legal Aid Bureau

MASSACHUSETTS

Massachusetts Justice Project

Merrimack Valley Legal Services

New Center for Legal Advocacy

Volunteer Lawyers Project of the Boston Bar Association

MICHIGAN

Legal Aid and Defender Association

Legal Aid of Western Michigan

Legal Services of Eastern Michigan

Legal Services of Northern Michigan

Legal Services of South Central Michigan

Michigan Indian Legal Services

MINNESOTA

Anishinabe Legal Services

Central Minnesota Legal Services

Legal Aid Service of Northeastern Minnesota

Legal Services of Northwest Minnesota Corporation

Southern Minnesota Regional Legal Services

MISSISSIPPI

Choctaw Legal Defense

Mississippi Center for Legal Services

North Mississippi Rural Legal Services

MISSOURI

Legal Aid of Western Missouri

Legal Services of Eastern Missouri

Legal Services of Southern Missouri

Mid-Missouri Legal Services Corporation

MONTANA

Montana Legal Services Association

NEBRASKA

Legal Aid of Nebraska

NEVADA

Nevada Legal Services

NEW HAMPSHIRE

Legal Advice & Referral Center

NEW JERSEY

Central Jersey Legal Services

Essex-Newark Legal Services Project

Legal Services of Northwest Jersey

Northeast New Jersey Legal Services Corporation

Ocean-Monmouth Legal Services

South Jersey Legal Services

NEW MEXICO

New Mexico Legal Aid

NEW YORK

Legal Aid Society of Mid-New York

Legal Aid Society of Northeastern New York

Legal Assistance of Western New York

Legal Services NYC

Legal Services of the Hudson Valley

Nassau/Suffolk Law Services Committee

Neighborhood Legal Services

NORTH CAROLINA

Legal Aid of North Carolina

NORTH DAKOTA

Legal Services of North Dakota

OHIO

Community Legal Aid Services

Legal Aid of Western Ohio

Legal Aid Society of Greater Cincinnati

Ohio State Legal Services

The Legal Aid Society of Cleveland

The Legal Aid Society of Columbus

OKLAHOMA

Legal Aid Services of Oklahoma

Oklahoma Indian Legal Services

OREGON

Legal Aid Services of Oregon

PENNSYLVANIA

Laurel Legal Services

Legal Aid of Southeastern Pennsylvania

MidPenn Legal Services

Neighborhood Legal Services Association

Northwestern Legal Services

North Penn Legal Services

Philadelphia Legal Assistance Center

Southwestern Pennsylvania Legal Services

RHODE ISLAND

Rhode Island Legal Services

SOUTH CAROLINA

South Carolina Legal Services

SOUTH DAKOTA

Dakota Plains Legal Services

East River Legal Services

TENNESSEE

Legal Aid of East Tennessee

Legal Aid Society of Middle Tennessee and the Cumberlands

Memphis Area Legal Services

West Tennessee Legal Services

TEXAS

Legal Aid of NorthWest Texas

Lone Star Legal Aid

Texas RioGrande Legal Aid

UTAH

Utah Legal Services

VERMONT

Legal Services Law Line of Vermont

VIRGINIA

Blue Ridge Legal Services

Central Virginia Legal Aid Society

Legal Aid Society of Eastern Virginia

Potomac Legal Aid Society

Southwest Virginia Legal Aid Society

Virginia Legal Aid Society

WASHINGTON

Northwest Justice Project

WEST VIRGINIA

Legal Aid of West Virginia

WISCONSIN

Legal Action of Wisconsin

Wisconsin Judicare

WYOMING

Legal Aid of Wyoming d/b/a Interim Legal Services Provider

U.S. Territories

GUAM

Guam Legal Services Corporation

MICRONESIA

Micronesian Legal Services

PUERTO RICO

Community Law Office

Puerto Rico Legal Services

VIRGIN ISLANDS

Legal Services of the Virgin Islands

The Congress finds and declares that—

- (1) there is a need to provide equal access to the system of justice in our Nation for individuals who seek redress of grievances;
- (2) there is a need to provide high quality legal assistance to those who would be otherwise unable to afford adequate legal counsel and to continue the present vital legal services program;
- (3) providing legal assistance to those who face an economic barrier to adequate legal counsel will serve best the ends of justice and assist in improving opportunities for low-income persons....

—Excerpt from the *Legal Services Corporation Act*
Public Law 93-355, July 25, 1974

Board of Directors

Frank B. Strickland, *Chairman*
Lillian R. BeVier, *Vice Chairman*
Jonann C. Chiles
Thomas A. Fuentes
Herbert S. Garten
David Hall
Michael D. McKay
Thomas R. Meites
Bernice Phillips-Jackson
Sarah M. Singleton

Officers

Helaine M. Barnett, *President*
Karen J. Sarjeant, *Vice President for
Programs and Compliance*
Victor M. Fortuno, *Vice President for
Legal Affairs, General Counsel, and
Corporate Secretary*
Charles Jeffress, *Chief Administrative
Officer*
David L. Richardson, *Treasurer and
Comptroller*

Office of Inspector General

Jeffrey E. Schanz, *Inspector General*
Joel S. Gallay, *Special Counsel*
Ronald “Dutch” Merryman, *Assistant
Inspector General for Audit*
Thomas D. Coogan, *Assistant Inspector
General for Investigations*
Laurie Tarantowicz, *Assistant Inspector
General and Legal Counsel*
David C. Maddox, *Assistant Inspector
General for Management
and Evaluation*

Legal Services Corporation
3333 K Street, NW
Washington, DC 20007
202.295.1617
www.lsc.gov

Table of Contents

(with navigating links)

LSC: 2008 by the Numbers	2
LSC: 2008 Highlights	3
Letter from the Chairman	4
President’s Message	5
Protecting Families	6
<i>Client Story</i>	7
Saving Homes	8
<i>Client Story</i>	9
Helping Consumers	10
<i>Client Story</i>	11
Securing Incomes	12
<i>Client Story</i>	13
Leveraging Resources	14
Improving Accountability	15
Message from the Inspector General	16
Financial Statements	17

LSC: 2008 by the Numbers

There were **50,876,000** Americans eligible for LSC-funded assistance.

17,645,000 children were eligible for LSC-funded assistance.

Grantees closed a total of **889,155** civil legal aid cases.

In those cases, **645,855** of the clients were women.

In **535,783** cases, counsel and advice was provided.

74,672 cases were resolved by court decisions.

35,718 private attorneys helped grantees by taking cases.

They closed **93,174** cases.

8,892 full-time staff worked as LSC-funded programs.

Of those full-time staff, **4,144** were attorneys.

They were assisted by **1,581** paralegals.

Legal services were provided at **918** LSC-funded offices.

The offices were operated by **137** nonprofit legal aid programs funded by LSC.

LSC: 2008 Highlights

Congressional Support

House and Senate Appropriations Committees, with bipartisan support, recommended \$390 million for the LSC Fiscal 2009 budget, a \$40 million increase from the previous year.

Grant Awards

In 2008, LSC provided \$333 million in grants for the delivery of civil legal services. LSC also awarded \$2.3 million to 33 programs for Technology Initiative Grants, and assisted 89 attorneys in the LSC student loan repayment program.

Foreclosure Collaboration

LSC closed 11,173 foreclosure and predatory mortgage lending cases in 2008, the first year that grantees specifically collected data on foreclosures. LSC also sponsored national conference calls to share legal, legislative and judicial initiatives with dozens of national consumer and housing organizations and LSC-funded programs.

Disaster Assistance

Victims of hurricanes Ike and Gustav, the Midwest flooding and other natural disasters received assistance from LSC-funded programs. LSC and the American Red Cross entered into a memorandum of understanding to work more closely together during disaster relief operations. LSC partnered with the American Bar Association, National Legal Aid & Defender Association and Pro Bono Net to launch www.disasterlegalaid.org to help victims of disasters, as well as advocates and volunteers, to speed their recovery from disasters.

Executive Directors Conference

Executive directors of LSC-funded programs gathered for a two-day session on “Confronting the Justice Gap” that focused on promoting quality in legal services programs.

Initiatives

LSC staff implemented an improved system of data collection and reporting, enabling LSC and grantees to better capture the work done for eligible clients.

LSC issued *Technology Capacities That Should Be in Place in a Legal Aid Office Today*, and announced that a technology plan will be required as part of each grant and renewal application for 2010.

Letter from the Chairman

The 11 member bipartisan Board of Directors of the Legal Services Corporation, appointed by the President and confirmed by the Senate, is responsible for the oversight and governance of LSC. During 2008, the Board paid special attention to governance issues. In addition, the Board continued its practice of holding meetings in different parts of the country and had the opportunity to see firsthand the essential work of LSC-funded programs during meetings with staff and clients.

One of the highlights of each Board meeting is recognizing and honoring the pro bono services provided by lawyers to legal aid clients. These private lawyers help sustain LSC's grantee programs, allowing them to develop broad support in the communities they serve.

The Board adopted a resolution in support of enhanced private attorney involvement in 2007, and urged programs to adopt similar local resolutions as a key element of LSC's private attorney involvement action plan, entitled "Help Close the Justice Gap, Unleash the Power of Pro Bono." By the end of 2008, 100 programs had adopt-



ed resolutions, I am pleased to report.

Stimulated by reports from the Government Accountability Office, the Board's activities resulted in improved governance and have included strengthening financial accountability, adopting charters for our standing committees, establishing a new code of conduct and ethics, improving internal controls, and improving coordination between LSC's program, compliance and Inspector General offices.

These steps have enhanced LSC's ability to fulfill its mission and helped LSC-funded programs deliver high-quality civil legal assistance to clients more effectively and more efficiently. I want to thank the LSC President and her management team, the LSC staff and the

Inspector General for their commitment to the mission and goals of the Corporation.

LSC made great strides in 2008, and, on a personal note, it is a pleasure to work with so many committed professionals in our programs across the country and at LSC headquarters in Washington, D.C. Thank you all for your service.

Frank B. Strickland
Chairman, Board of Directors
Legal Services Corporation

President's Message

In these difficult economic times, the mission and the work of the Legal Services Corporation have never been more essential. Millions of Americans continue to fall deeper into poverty and millions more have slipped into poverty for the first time. Many have lost or are at immediate risk of losing their jobs, homes and health care because of the recession.

The people who come to LSC-funded programs are the most vulnerable among us, and have nowhere else to turn. Our programs find solutions to pressing civil legal problems that help low-income individuals and families obtain or maintain the basic necessities of life and achieve physical security, stability and self-sufficiency.

Every day across our nation, program executive directors, attorneys, paralegals, administrative and support staff all play important roles in delivering high-quality legal services to the poor. On any given day in a legal services office, staff are helping clients avert evictions and foreclosures, escape from domestic violence, and gain access to disability benefits, food stamps, unemployment insurance and necessary medical care.

As I have traveled throughout the country visiting programs in more than 40 states, in urban and rural areas, on Native American reservations and in hurricane disaster areas, I am continually impressed by the unwavering commitment of legal aid program staff and their boards in helping their clients achieve access to justice.

Through their work, LSC-funded programs put a spotlight on the importance of civil legal aid and on the great challenge of these times. Programs already turn away far too many low-income people desperate for civil legal assistance because of a lack of resources. Historical trends suggest that during 2007-2009, the LSC client-eligible population will increase from nearly 51 million to 62 million.

Even before the recession, the 2005 LSC report, *Docu-*

menting the Justice Gap in America, found that for every eligible person served, at least one eligible applicant was turned away, or close to one million people. This report defined the justice gap, shaped the dialogue for LSC and the Congress, and helped bring about higher levels of federal funding. LSC is updating the report and will publish new findings in late 2009.

Since becoming president of LSC in January 2004, I have placed quality at the forefront of the LSC mission. LSC's commitment to quality was the focus of the 2008 summer conference that brought together Executive Directors of LSC-funded programs. At the conference, Executive Directors shared the specific steps they had taken to improve the quality legal

services provided by their programs and emphasized quality as a vital ingredient of leadership.

LSC will mark its 35th anniversary on July 25, 2009. This milestone is an opportunity to reaffirm our commitment to achieving equal access to justice for all. In this effort, LSC needs the help of judges, the private bar, law schools, business leaders, State Access to Justice communities and other funders and supporters of civil legal aid. We must continue to strive to meet the civil legal needs of low-income families and individuals by seeking a robust federally-funded legal services program, securing additional financial assistance from state and local governments and private funders, expanding the efficient use of technology, supporting enhanced *pro bono* assistance, developing effective *pro se* initiatives, and creating and strengthening successful partnerships and strategic collaborations. These efforts have never been more difficult nor more critical than they are today.

Our national pledge of equal justice is far from being fulfilled. Working together, I hope that one day equal access to justice will be true for all—not just for some.



Helaine M. Barnett
President
Legal Services Corporation

Serving the Most Vulnerable Among Us

Protecting Families

Across the nation, legal services programs protect families—whether the case involves adoption, divorce, custody and visitation rights or parental rights. Safety and protection of children are priorities of legal aid programs, especially when a case involves domestic violence.

LSC FACTS

Families

In 2008, LSC-funded programs handled **119,415** cases involving a divorce or separation

89,056 cases obtaining custody and visitation rights for parents

44,719 cases helping clients escape from domestic violence

28,241 cases involving child support, alimony payments and other financial support

Total 2008 Cases
312,046

In 2008, family law cases accounted for 35 percent of all cases closed by LSC-funded programs, the largest category of casework.

Family law involves a variety of issues, with domestic violence, in particular, a priority issue and special concern at many LSC-funded programs. Studies show that domestic violence is more severe in disadvantaged neighborhoods and occurs more frequently in households facing economic distress.

Programs help victims of domestic violence by securing protective orders, finding affordable housing, providing representation in divorce and child custody disputes, assisting with unemployment claims, resolving credit problems, obtaining public benefits and by providing other legal assistance as needed, such as adjustment of immigration status.

In the family law category, the vast majority of divorce cases primarily involve child custody issues and domestic violence. Growing concerns about domestic violence has led many LSC-funded programs to operate projects that help victims of abuse.

Legal Aid of West Virginia, for example, is a leader in West Virginia's Legal Assistance Partnership and provides court-based advocacy and legal services to survivors of domestic violence. To help victims, the partnership desig-

nates local teams that include an advocate from a licensed domestic violence program and a local legal aid attorney. These teams provide comprehensive, coordinated services to assist victims in attaining long-term self-sufficiency and independence.

Iowa Legal Aid created the Survivors and Families Rural Access Project that helps victims secure protective orders, file for divorce and gain child custody.

In the Tampa, Fla., area, Bay Area Legal Services runs the Domestic Violence Survivors' Affordable Housing Initiative, which helps victims of domestic violence locate housing to escape an abusive spouse or partner.

The Philadelphia Legal Assistance Center created a domestic violence outreach project to address the unique needs of victims in the Hispanic and the Asian communities. The Legal Aid Foundation of Los Angeles operates community clinics that serve Asian and Pacific Island clients, focusing on family, housing and immigration issues.

Across the country, programs funded by LSC are committed to helping low-income individuals, families and domestic violence victims gain access to civil legal assistance and to finding solutions that provide safeguards for children and victims of abuse.



“There was a point I wanted to die of grief, but today I am a new person. I know that I have to be strong for my daughter, and I can provide a good life for myself and her in America.”

Photo by Everard Williams Jr.

Client Story

“I had nowhere to go or turn,” said “Ms. W.,” a single mother, who met and dated her husband in Korea before moving to Los Angeles. Life quickly changed for the worse, and she found herself in an abusive relationship with no family nearby.

“Since I did not drive or speak any English, I felt very isolated and lonely,” she explained.

After Ms. W. confronted her husband about an extramarital affair, he became physically abusive in front of her three-year-old daughter. Although he became increasingly abusive, her in-laws were indifferent to her plight. Her husband also threatened to stop the processing for Ms. W.’s green card and to throw her out on the streets.

One day she found the number for a Korean counseling center in Los Angeles and sought help. When her husband and his family found out, Ms. W. and her daughter were dragged from their home and thrown into the streets with their belongings. She escaped to a

shelter and contacted a special unit within the Legal Aid Foundation of Los Angeles that provides culturally and linguistically appropriate services to Asians and Pacific Islanders. Legal Aid Foundation Directing Attorney Joann Lee and her team helped Ms. W. with restraining orders and her immigration status.

After moving out of the shelter, she rented a room in a house, where her landlord started to sexually harass her. Legal aid attorneys again came to her assistance, filing a restraining order against him. The Legal Aid Foundation also filed a wage claim against the landlord because he forced her to work.

“There was a point I wanted to die of grief, but today I am a new person,” Ms. W. said. “I know that I have to be strong for my daughter, and I can provide a good life for myself and her in America.”

With her newfound confidence, Ms. W. has attended school and discovered hidden artistic and writing talents.

—From the *Legal Aid Foundation of Los Angeles*

Serving the Most Vulnerable Among Us

Saving Homes

A roof over one's head is a basic necessity, but many low-income Americans live in substandard, even dangerous, housing. They may face unfair landlord practices, seriously defective living conditions, predatory lending and other housing scams. They may be at risk of homelessness.

LSC FACTS

Housing

In 2008, LSC-funded programs handled **120,619** cases involving landlord-tenant disputes

23,307 cases involving public housing

12,573 cases involving homeownership and property issues

9,920 cases related to mortgage foreclosures

1,253 cases involving predatory lending practices

Total 2008 Cases
229,512

In 2008, most LSC-funded programs, in addition to handling traditional legal problems, such as landlord-tenant disputes, took on a new, vexing problem—the nation's foreclosure crisis and its impact on low-income individuals and families. Many programs, receiving increased requests for assistance because of foreclosures, adopted innovative approaches to keep low-income families in their homes.

LSC-funded programs resolved 11,173 foreclosure and predatory mortgage lending cases in 2008, the first year that LSC grantees have specifically collected data on foreclosure cases. The number does not include the thousands of telephone calls and other requests for foreclosure-related assistance that many programs received during the year which resulted in advice and help rather than direct representation.

Foreclosure laws vary by state, and local LSC-funded programs are well-suited to help low-income homeowners and renters. With legal assistance, low-income Americans can renegotiate the terms of their loans, assert truth-in-lending protections, enforce eviction notification laws, file injunctions in state courts, file bankruptcy to stop an imminent sale, and provide counseling through federally certified housing programs.

During 2008, programs stepped up efforts to help low-income homeowners and renters cope with the foreclosure crisis. Neighborhood Legal Services of Los Angeles County partnered with mortgage lenders to explore workouts that will keep low-income families in their homes. The Legal Aid Foundation of Los Angeles convened the Advocates for Consumer Justice Foreclosure Response Team and participated in the California Reinvestment Coalition Network, a statewide group addressing mortgage and housing issues. Legal Services NYC operated foreclosure prevention projects in Brooklyn, a foreclosure project in the Bronx and a homeowner defense project on Staten Island. Many other programs, including those in Atlanta, Baltimore, Cleveland and Raleigh, strengthened their initiatives to help low-income Americans at risk of foreclosure.

LSC has served as a clearinghouse on foreclosure issues, ensuring coordination among legal services programs and national organizations and sharing resources and knowledge about other housing and consumer initiatives.

Thanks to the hard work by legal aid attorneys around the nation, thousands of low-income Americans have averted homelessness and numerous neighborhoods have escaped the blight of further foreclosures.

Legal aid “made a huge difference for me. I have nothing but incredible kudos for Blue Ridge.”

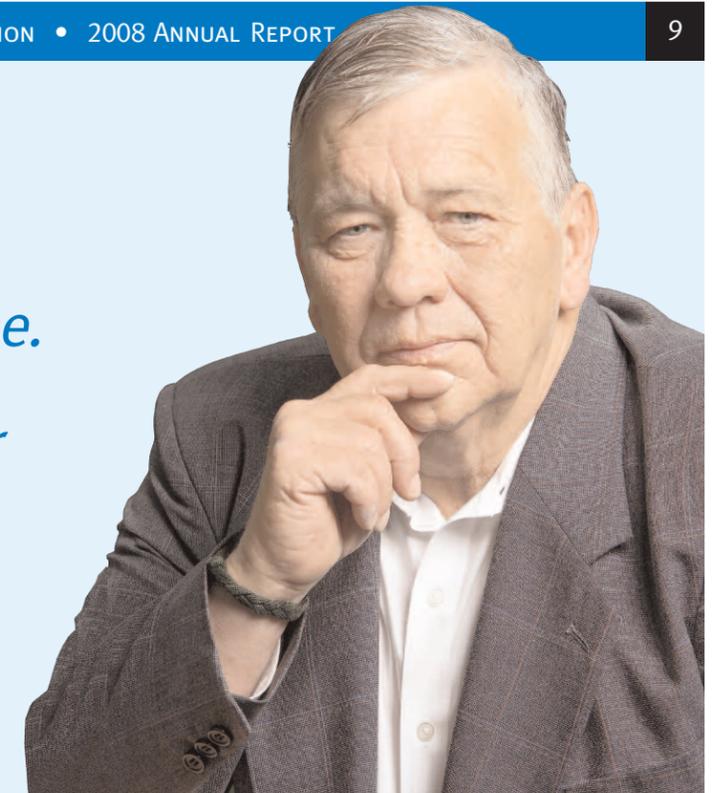


Photo by Jeff Taylor

Client Story

“**M**r. C.” was embarrassed when he broke down in the Winchester, Va., office of Blue Ridge Legal Services. He explained he was not looking for hand-outs, but that he did not know where to turn. He and his family were facing foreclosure and eviction in a matter of days, and his electricity was about to be cut off as well. In addition to confronting the prospect of homelessness for his wife and three children, he was on the brink of losing his life savings.

Mr. C. is a 59-year-old military veteran, discharged several years ago for medical reasons, two weeks short of 20 years of service. To try to qualify for a military pension, he had signed up with the National Guard, serving for two years. In June 2007, he was called up for a one-year tour of duty in Iraq with the Guard. Prior to deployment, he invested his life savings of \$30,000 in a home for his wife and children under an installment land sale contract. If he defaulted on his payments, he automatically lost his investment and his home.

A year later, Mr. C. returned from Iraq suffering from significant health problems, and the National Guard released him. He was not physically able to work but looked for employment and applied for veterans' and Social Security benefits. His wife, unable to work because of epilepsy, fell into depression. The household's only

income was brought in by their disabled teen-age son, who held a part-time job setting and clearing tables at a restaurant.

Released by the Guard and without income, Mr. C. could not make the mortgage payments and was at risk of losing the family home and the life savings invested in it. After meeting with Mr. C., the legal aid staff was determined to find ways to help him.

The staff helped marshal resources in the community to help Mr. C. and his family. The American Legion and local charities provided financial assistance to keep the electricity on at the home. A Blue Ridge Legal Services attorney quickly contacted the lawyer handling the pending foreclosure and eviction and was able to negotiate a repayment plan on the mortgage so that Mr. C. did not lose the home in which he had invested his life savings.

Mr. C.'s applications for veterans' and Social Security benefits were approved, and he says, “I've been able to get caught up.”

Blue Ridge attorney Anna Hammond “bent over backwards to help me. She was instrumental in negotiating with my mortgage holder's lawyer for me,” Mr. C. said.

Legal aid “made a huge difference for me,” he added. “I have nothing but incredible kudos for Blue Ridge.”

—From *Blue Ridge Legal Services*

Serving the Most Vulnerable Among Us

Helping Consumers

The consumer-related legal issues that affect low-income communities are many, especially those involving complaints about fraud and deceptive practices. Scam artists and unscrupulous lenders exploit the elderly and other vulnerable groups, particularly after natural disasters, creating sizeable workloads for LSC programs.

LSC FACTS

Consumers

In 2008, LSC-funded programs handled **53,952** cases involving debt collection, repossessions, and disputes over collection practices

31,653 cases involving debt relief and bankruptcy

8,158 cases enforcing contracts and warranties

4,482 cases related to disputes over public utilities

1,416 cases involving unfair sales practices

Total 2008 Cases
108,404

Increasing numbers of low-income individuals and families came to legal aid offices in 2008 for assistance in managing their debts and, when necessary, in filing for bankruptcy. In many cases, low-income Americans seek counsel because they have lost a job, took wage cuts or lost financial stability after turning to pay-day lenders, car-title lenders, check-cashing outlets and others to raise cash for food, shelter and other basic necessities.

Legal aid assistance includes defending against unfair and illegal sales contracts, challenging fraudulent sales practices, and assisting clients who face debt collection in the form of lawsuits, garnishments and non-judicial collection activities. The financial difficulties of many clients are compounded by the use of credit cards to deal with debt and spending problems, often resulting in greater debt.

In Ohio, Community Legal Aid Services established a clinic for low-income people being sued on credit card debt in the Akron Municipal Court. Defendants who are being sued are notified about the clinic by the clerk of the court. At the clinic, held at public libraries, participants are given legal education material and fill-in-the-blank *pro se* forms. The sessions cover such topics as how to read and understand court papers, basic civil legal pro-

cedures and common defenses to credit card lawsuits. Many of the participants have been successful in getting their cases dismissed either by the plaintiff or by the court.

On other topics, many legal aid offices provide free information about the do's and don'ts of buying a home, financing home repairs, adding someone to a title or deed, and asserting consumer rights.

Legal Services NYC, for instance, houses the New York City Bankruptcy Assistance Project to help low-income city residents who are considering bankruptcy. This *pro bono* project holds weekly workshops in which debtors meet with volunteer attorneys to learn about, and be evaluated for, bankruptcy. Where appropriate, the Project assists debtors in preparing and filing Chapter 7 bankruptcy petitions, which erase debts for those who cannot pay. In addition, the project finds *pro bono* attorneys for self-represented debtors with contested matters before the bankruptcy courts.

For the poor, the loss of a job can create consequences that adversely affect their lives, including problems caused by late payments on credit cards and ailments that go untreated by doctors. Through the help of legal aid lawyers, clients can resolve financial problems and strive for a fresh start in life.



“I am grateful that Lone Star Legal Aid was there on the island to help when people like me needed them the most.”

Photo by Britney Jackson

Client Story

For 74 years, “Ms. M.” has seen her share of storms and bad weather as a Galveston, Texas, “islander.” She was only slightly troubled when she heard the first alert about Hurricane Ike, and she probably would not have evacuated if her grandchildren had not insisted that she leave.

After she fled, the dispatches from Galveston sounded grim. Fires had engulfed the historic district, only blocks from Ms. M.’s home. The island’s 17-foot-high seawall did little to stop Ike, with water rushing over the top and leaving many low-income neighborhoods in ruins. Ms. M. was among the first to return after Ike, and she found her home severely damaged. But compared to other residents, whose homes were demolished, she felt lucky.

Ms. M. quickly hired a contractor, selected from one of the hundreds of bright yellow signs tacked to any still-standing utility pole. He promised quick work, and like most “storm chasers,” he asked for an up-front payment to repair the wood-framed house she had inherited from her mother. Though she acknowledges being suspicious of his low price, she hired him anyway. After only five hours, the contractor, who had proposed raising the house off the ground, assured her the work was complete. Then, he disappeared.

When Ms. M. met Lone Star Legal Aid attorneys at a

FEMA Disaster Recovery Center, the attorneys began a quick investigation of the contractor. Ms. M. said she had called him repeatedly, but her messages were not returned. Finally, when the contractor called back, he threatened to sue her if she continued calling.

Lone Star Legal Aid, meanwhile, discovered careless work had left the house in far worse shape than the hurricane. Doors did not shut, floors were slanted, and dampness pervaded the interior. The house was splitting in two. Piles of debris still sit in the backyard.

The contractor turned out to be a familiar name. Lone Star Legal Aid lawyers had won a judgment on behalf of another victim, an elderly woman with severe disabilities who had used the contractor after Hurricane Rita, which had hit the Gulf Coast three years before Ike. In that matter, Lone Star Legal Aid won a judgment, and won again on appeal.

Civil legal aid programs are critical resources for low-income individuals who file consumer complaints because they often take months to resolve and require knowledge of state and federal laws and requirements.

As for Ms. M., she is “grateful that Lone Star Legal Aid was there on the island to help when people like me needed them the most.”

—From *Lone Star Legal Aid*

Serving the Most Vulnerable Among Us

Securing Incomes

Local, state and federal benefit programs are the safety nets that support the poor across the nation. Clients at LSC-funded programs often qualify for public benefits but sometimes do not know which benefits are available or whether they meet eligibility rules.

LSC FACTS

Income Support

In 2008, LSC-funded programs handled **33,373** cases involving Supplemental Security Income

15,154 unemployment compensation claims

13,018 food stamp cases

11,994 cases to provide Temporary Assistance To Needy Families

11,729 claims for Social Security Disability Insurance

Total 2008 Cases **98,257**

These programs help meet the needs of low-income individuals and families when their incomes fall short and keep them from falling deeper into poverty. Public benefits include food stamps, school breakfast and lunch programs, Social Security disability, Supplemental Security Income, Temporary Assistance to Needy Families, Medicaid, unemployment compensation, veterans' compensation and pensions, provisions of the Soldiers and Sailors Civil Relief Act, state-funded cash assistance and emergency rental and utility assistance.

Requests for legal assistance with public benefits are among the most urgent brought to LSC-funded programs. Public benefit rules and regulations may be technical or difficult to understand, applicants may be rejected and recipients may be improperly reduced or terminated and new citizens with limited proficiency in English may find it even more difficult to apply because of language, cultural issues and incorrect information.

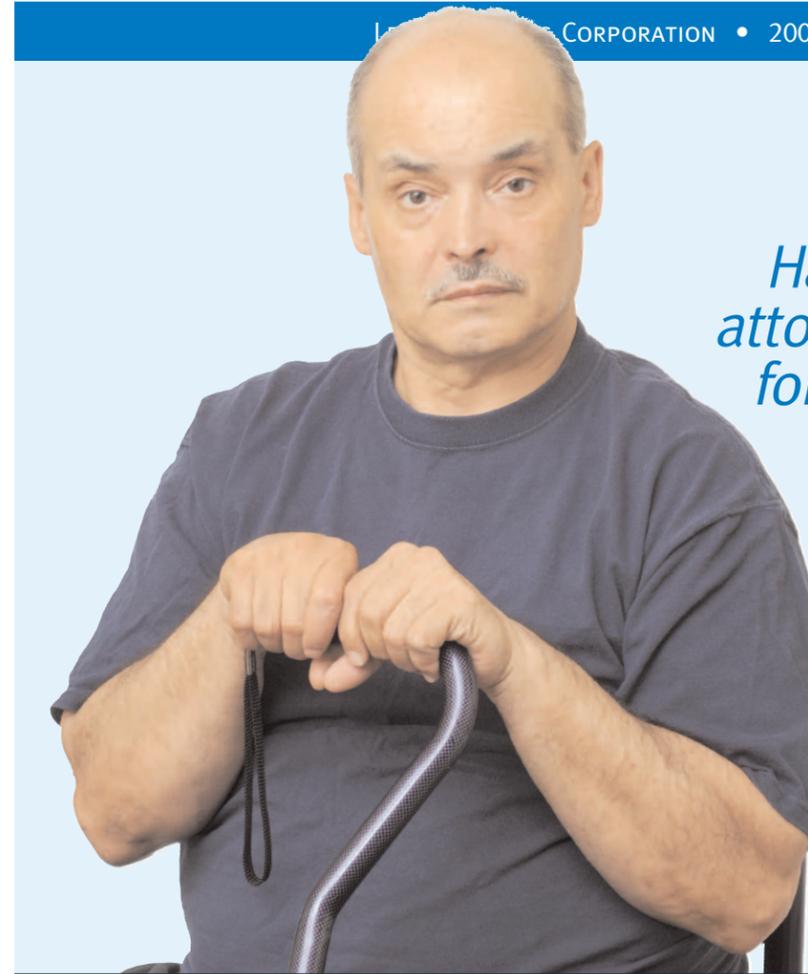
Because public benefits often are crucial to the survival of a family, legal aid providers and governments have collaborated on procedures to ensure fair treatment of applicants and recipients.

In California, for example, an agreement

among San Diego County officials, state officials and the Legal Aid Society of San Diego provides advocates to low-income persons who appear without legal representation at administrative law hearings on claims to receive Medi-Cal (Medicaid), county medical services, food stamps and general relief, CalWorks (temporary assistance to needy families) and in-home support services. Social Services administrative law judges appreciate the presence of Legal Aid Society advocates who are familiar with hearing procedures and can assist people in getting through the hearing process more effectively and efficiently.

Legal Services of Greater Miami has focused on due-process problems with food stamp notices, the lack of guidelines and case law for Medicaid waivers and long waits for public benefits decisions, which have been partly delayed because of a rapid increase in applications.

These LSC-funded programs and many others work each day to ensure employment and economic security for clients. By having attorneys with specialized expertise, programs are able to help clients receive unemployment insurance compensation, food stamps, Supplemental Security Income and other public benefits for which they qualify.



Having a legal aid attorney “speaking up for me” made all the difference in the appeal to SSI. “From then on, everything was okay.”

Jim Summaria Photography

Client Story

Mr. P., who lives in Chicago, was always a hard worker—having held jobs at a printing company, an auto body shop and most recently at a medical supply store. But then his life took a bad turn. He was diagnosed with diabetes, which was causing hypertension and numbness and tingling in his legs. He also was in a car accident that left him with shoulder, elbow and knee pain. He began losing strength and relied on his brother to help him bathe and shower.

During this ordeal, he was let go at his job. In order to cover the costs of therapy, prescriptions and medical visits, Mr. P. applied to the state of Illinois for a medical card. When his doctor referred him for rehabilitation, the physical therapists informed Mr. P., who is 55, that his medical card would not cover rehabilitation therapy expenses.

Mr. P., who completed eight years of school and speaks Spanish and English, turned for help to the Supplemental Security Income (SSI) program, adminis-

tered by the Social Security Administration. His first two applications for SSI assistance were turned aside, and, sadly, the lawyer handling his case passed away. But, on a third try, with an attorney from the Legal Assistance Foundation of Metropolitan Chicago at his side, Mr. P. was found to be disabled, received a cash award and was issued a more comprehensive medical card that could be used for therapy.

Now, with his SSI benefits, Mr. P. rents an apartment and no longer needs to live with and depend on relatives.

Having legal aid attorney Martha L. Tonn “speaking up for me” made all the difference in his appeal for SSI, Mr. P. said. “From then on, everything was okay.”

To express his gratitude, Mr. P. bought her a teddy bear for her office. “That was to show my appreciation—a thank you wasn’t enough,” he said. “That was the only thing I could do for her. I really, really, really appreciated what she did for me.”

—From the *Legal Assistance Foundation of Metropolitan Chicago*

Serving the Most Vulnerable Among Us

Leveraging Resources

Programs funded by LSC constantly strive to use technology, build partnerships and reach out to the communities they serve to augment and stretch their federally-funded resources. Across the nation, programs collaborate with courts, law schools and community groups to improve the quality of and expand services provided to clients.

Technology plays an increasingly vital role in the delivery of legal services, and LSC encourages its programs and partners to share ideas and practices that improve their ability to help eligible clients. Many LSC-funded programs are challenged as never before to meet the needs of their clients, and strategic investments and uses of technology can help programs make a difference in the lives of clients.

Since 2000, LSC has recognized innovative uses of technology that promote expanded access to legal services through its Technology Initiative Grants (TIG) program. In 2008, TIG awarded more than \$2.3 million in 33 grants to 26 programs in 22 states. Of that total, \$300,000 was provided by the State Justice Institute to promote partnerships between legal aid programs and state courts for projects that provide information for self-represented litigants.

The grantees expanded client intake through online systems, increased assistance to unrepresented litigants through the development of additional automated forms and provided support for replication of technologies that improve client services.

The grants, for example, provided funding to update software used to support statewide websites in all 50 states; to create the Maine Legal Aid Mobile Web to provide legal information for Maine's low-income population over mobile,

handheld devices; to replicate LiveHelp in New York City to focus on the needs of Spanish-speaking and limited English proficient communities; and to link Illinois case management systems to a national server to speed production of legal documents. TIG invested \$296,000 in a project to automate tax returns so that low-income workers may apply for the Earned Income Tax Credit (EITC), and that resulted in more than \$33 million of EITC refunds to the workers and local economies.

In addition to technology, all LSC-funded programs are required to spend an amount equal to 12.5 percent of their grant to involve private attorneys in the delivery of civil legal assistance to eligible clients. During 2008, private attorneys closed about 93,000 cases for programs—about 10 percent of all cases closed.

LSC also continued to receive congressional funds for the Herbert S. Garten Loan Repayment Assistance Program. Its goal is to help LSC-funded programs recruit and retain highly qualified attorneys and to promote development of additional initiatives that provide relief for educational debt and make public interest law an even more attractive career path.

Each LRAP participant receives up to \$5,600 per year for three years—for a maximum of \$16,800. Participants are asked to make a three-year commitment to a program or repay a portion of the funds if they leave their LSC-funded program early.

Surveys to assess the effectiveness of the program found the vast majority of executive directors who offered loan repayment assistance said it significantly enhanced their ability to recruit and retain staff.

Serving the Most Vulnerable Among Us

Improving Accountability

To ensure the most effective delivery of services to clients, LSC holds itself and grantees accountable to the highest standards.

LSC awards more than 95 percent of its total funding to nonprofit legal aid programs. Grants are based on the size of poverty populations and are awarded on a competitive basis. LSC ensures that programs receiving LSC grants provide high-quality legal services and comply with applicable laws, rules, regulations and other guidance.

Acting on recommendations in two reports from the Government Accountability Office, LSC focused in 2008 on improving its Board of Directors governance, its corporate management and its grants oversight. The LSC Board created an Audit Committee to provide more financial oversight, adopted a Code of Ethics and Conduct for the Corporation, appointed an Ad Hoc Committee to clarify and strengthen the roles and responsibilities of the various oversight functions within the Corporation, and initiated a Board self-evaluation process.

At the LSC management level, LSC developed and adopted a strategic approach to risk management to provide safeguards against threats that could harm critical operations. The final plan included a full listing of the risks to LSC's strategic objectives, a delineation of the strategies to be followed to mitigate those risks, a list of the offices responsible for each of those strategies, and dates for annual reviews.

To mitigate the risk of an interruption in corporate activities, LSC implemented a continuity of operations plan for the Corporation. As part of the plan, LSC established a remote computer facility and is using it as a backup for its

computer operations.

LSC also undertook activities to improve grant management practices. During 2008, LSC revised and updated written guidelines for the Corporation's two oversight offices, including a full review of the procedures for on-site program assessments. When reviewing programs on-site, the Office of Compliance and Enforcement now conducts expanded financial reviews as well as regulatory compliance reviews. The Office of Program Performance on-site reviews now are patterned after the revised LSC Performance Criteria, the centerpiece of LSC's Quality Initiative. LSC also sent advisories to all LSC-funded programs reminding them about important fiscal internal control requirements and regulatory compliance requirements.

While the efforts to enhance accountability were underway, LSC, for the fifth straight year, received an opinion from outside auditors that the Corporation's financial statements presented fairly, in all material respects, the financial position of LSC.

Message from the Inspector General

Congress adopted the Inspector General Act to establish independent offices to help protect taxpayer funds from fraud and abuse and to improve the economy and efficiency of government agencies and federally funded programs. At LSC, these objectives are especially important as dollars lost to fraud or waste cost LSC-funded programs critically needed resources and can deprive clients of services they need to protect their rights and represent their interests in areas often vital to their personal and economic security.

As the Inspector General at LSC, much of the daily work of my office involves audits, investigations and program analysis—all designed to help promote improvement in or protect LSC's programs and activities.

To large degree, my professional work grows out of a long-standing personal interest in, and commitment to, legal aid for the poor. Shortly after joining LSC in March 2008, I wrote to the program executive directors: “[L]et me express the great respect I have for the work you and your staffs do for low-income persons in our country. I know first-hand the importance of legal services programs. For many years I volunteered as a pro bono attorney for legal service organizations in Northern Virginia. So it is with great enthusiasm and commitment that I now join you in this mission...”

While maintaining the independence of the Office of Inspector General (OIG) and its staff of approximately 25 professionals, I also hope to work in close coordination with LSC management and staff to further the Corporation's mission. In carrying out my duties, I will draw on my previous

service of 32 years with the U.S. Justice Department, where I served in the Law Enforcement Assistance Administration, the Justice Management Division and in the Office of Inspector General there.



During 2008, most of the OIG's initiatives were directed toward governance and grants management and oversight issues, in response to the interests of LSC's Board of Directors and management and the Congress in ensuring thorough follow-up on findings of the Government Accountability Office and because corporate governance and internal controls are central to proper stewardship of public funds.

Even with the recently increased level of federal support for legal services for low-income persons, the combined stresses of the economic crisis—putting more people in need while reducing other sources of funding for many local programs—makes it more important than ever that LSC funds are used to maximum effect. Our work in the coming year will seek to identify opportunities for savings and improvement in headquarters and grantee operations, while we continue to perform our other mandated responsibilities.

As I stated in my first formal message to the LSC Board and the Congress, “I can think of no better role than one devoted to the dual goals of helping to improve... programs serving the legal needs of the poor and of protecting taxpayer dollars from fraud and abuse.”

Jeffrey E. Schanz
Inspector General

Table of Contents • September 30, 2008 and 2007

Financials

Independent Auditors' Report	17
Management's Discussion and Analysis	18
Basic Financial Statements	
Statements of Net Assets and Governmental Fund Balance Sheets	26
Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances	28
Notes to the Financial Statements	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36

Independent Auditors' Report

To Inspector General and Board of Directors, Legal Services Corporation:

We have audited the accompanying statements of net assets and governmental fund balance sheets of Legal Services Corporation (“LSC”) as of September 30, 2008 and 2007, and the related statements of activities and governmental fund revenues, expenditures, and changes in fund balance 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2008 and 2007, 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 which includes budget comparison information for the year ended September 30, 2008, on pages 18–25 is required supplementary information in accordance 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 January 6, 2009 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

William Smith + Brown, PC
January 6, 2009

Management's Discussion and Analysis • September 30, 2008 and 2007

Mission

The Legal Service Corporation's mission is to promote equal access to justice in our nation and to provide high-quality civil legal assistance to low-income persons.

Organization

Legislation establishing the Legal Services Corporation as a private, nonprofit, federally funded corporation was enacted in 1974. LSC is governed by an 11-member board appointed by the president and confirmed by the Senate.

The Corporation is the single largest source of funding for civil legal aid for low-income individuals and families. LSC funds 137 programs, which operate as independent nonprofits with their own boards of directors. Substantially all of the Corporation's funding comes from the Congress, and more than 95 percent of the annual congressional appropriation is distributed to these programs through competitive grants. LSC provides guidance, training and oversight to ensure that the programs provide high-quality legal services and comply with congressional restrictions, LSC rules and regulations.

The Corporation's largest offices provide oversight of LSC grantees:

- The Office of Program Performance administers the competition for LSC grants and provides oversight to ensure LSC-funded programs provide high-quality legal services that are responsive to the needs of clients.
- The Office of Compliance and Enforcement reviews grantee compliance with the LSC Act, with congressional restrictions on LSC funds and with LSC regulations and instructions.

Other major Corporation offices include the Office of Legal Affairs, Office of Information Management and Office of Information Technology.

Office of Inspector General

In addition to the above offices, the LSC has a statutorily independent Office of Inspector General, established in 1988, to conduct and supervise audits, investigations and reviews to detect fraud and abuse and to assist management in identifying ways to promote efficiency, and effectiveness in LSC operations and programs. The LSC Appropriations Act, which includes a separate budget line for the OIG, places additional responsibility with the OIG for monitoring grantee compliance with congressional restrictions via annual audits performed by independent public accountants. It also specifies the OIG's authority to conduct its own reviews of grantee compliance.

Overview of the Financial Statements

The annual financial report presents the 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 provides a useful overview of LSC's financial positions with respect to assets for FY 2008 and FY 2007, and an overview of the FY 2008 operating budget experience.

The Basic Financial Statements include two financial statements: the Statements of Net Assets and Governmental Fund Balance Sheets; and the Statements of Activities and Governmental Fund Revenues, Expenditures, and Change in Fund Balances. These statements are presented for the periods ending September 30, 2008, and 2007, so that readers may compare year-to-year balances. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The Statement of Net Assets and Governmental Fund Balance Sheet summarizes the net assets that are available to pay outstanding liabilities. The resulting balance is the amount of funds available to support next year's operations. The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances provides the results of the identified year's operations.

Notes to the Financial Statements provide further details on specific items contained in the tables in Part 2.

Financial Highlights

LSC receives its support from a federal appropriation and its derivative income, a grant from the U.S. Court of Veterans Appeals and from a partnership with the State Justice Institute, which supports LSC's Technology Initiative. Any remaining funds from one year's budget are included in the next year's budget to support the next year's activities.

The Management and Administration (M&A) account has received essentially flat funding for the last five years. M&A received \$243,000 less funding for fiscal 2008 when compared to fiscal 2007, and M&A funding is down \$700,000 over the past five years.

In part because the M&A account did not keep pace with inflation, transportation and payroll costs, LSC was forced to reprogram \$500,000 in FY 2008 to avert a budget shortfall in the M&A account in FY 2009. Until 2008, the Corporation had absorbed rising costs through a combination of carryover funds and interest income. But carryover funds have been greatly diminished and interest income has declined sharply as a result of greatly reduced interest rates.

Management's Discussion and Analysis • September 30, 2008 and 2007

The reprogramming was required in order to avoid a reduction-in-force (RIF) because of a Continuing Resolution that will run through March 6, 2009. The resolution maintains the Corporation at FY 2008 budget levels until Congress completes the appropriations process and provides a FY 2009 budget. With the permission of Congress, LSC reprogrammed the \$500,000 from the pilot Loan Repayment Assistance Program (LRAP) for FY 2008 to M&A. The LRAP account was selected because the Corporation would not be issuing checks to LRAP participants until FY 2009, and LSC received an additional \$500,000 for LRAP in the FY 2009 Continuing Resolution.

TABLE 1: Statement of Net Assets

	September 30	
	2008	2007
Total Current Assets and Other Assets	\$ 68,029,086	\$ 68,249,559
Net Property and Equipment	518,290	577,838
Total Assets	\$ 68,547,376	\$ 68,827,397
Grants and Contracts Payable	\$ 61,513,267	59,611,053
Other Liabilities	1,192,131	1,565,886
Deferred Revenue	1,433,575	2,663,896
Total Liabilities	64,138,973	63,840,835
Net Assets		
Fund Balances	3,890,113	4,408,724
Investment in capital assets	518,290	577,838
Total Net Assets	4,408,403	4,986,562
Total Liabilities and Net Assets	\$ 68,547,376	\$68,827,397

Table 2 presents a comparison of 2008 and 2007 revenues. In 2008, the federal appropriation, a grant from the U.S. Court of Veterans Appeals, partnership funds from the State Justice Institute and other revenues totaled \$354,078,688, and expenditures for program activities and support activities totaled \$354,656,847. In 2007, revenues totaled \$348,192,917, and expenditures for program activities and support activities were \$347,655,098. Table 2 provides a review of each year's operating results.

Operations in 2008 yielded a decrease to the net assets of \$578,159. When this amount, which is shown in the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, is added to the prior year's balance, the year-end net assets total \$4,408,403. This compares to the increase in net assets in FY 2007 of \$537,819, which resulted in year-end net assets of \$4,986,562.

TABLE 2: Change in Net Assets

	Years ended September 30	
	2008	2007
Revenue		
Federal appropriations	\$ 350,490,000	\$ 348,578,000
Grant revenue	1,510,000	1,596,379
General revenues		
Change in deferred revenue	1,230,321	(2,468,506)
Contributed services	163,570	
Interest & Other income	684,797	487,044
Total revenue	354,078,688	348,192,917
Expenses		
Program activities	337,143,611	331,373,708
Supporting activities	17,513,236	16,281,390
Total expenses	\$ 354,656,847	\$ 347,655,098
Change in net assets	(578,159)	537,819
Net assets, beginning of year	4,986,562	4,448,743
Net assets, end of year	\$ 4,408,403	\$ 4,986,562

Management's Discussion and Analysis • September 30, 2008 and 2007

Delivery of Legal Assistance

The clients of LSC-funded programs are among the most vulnerable among us, living at or below 125 percent of the federal poverty guideline—an income of \$26,500 for a family of four. Three out of four clients are women, many of whom are mothers struggling to keep their families together and their children safe, fed and housed.

They are of all races and ethnicities, young and old, the working poor, people with disabilities, families with children, veterans, victims of domestic violence and victims of natural disasters. LSC-funded programs make a meaningful difference in the lives of their clients—helping them secure basic human needs such as safe and habitable housing, an adequate source of income, access to needed health care, and protection from abusive relationships.

Legal aid helps reduce federal spending by preventing the downward spiral of the poor into costly public support. Ensuring that clients are adequately represented in the civil judicial system greatly improves their chances of keeping their home rather than moving into a shelter, holding a job rather than going onto public assistance, retaining custody and support of their children rather than losing them to foster care, receiving needed medical care before requiring expensive hospitalization, escaping an abusive relationship rather than suffering further injury or even death. In short, civil legal assistance saves lives and money.

The workload at many LSC-funded programs increased during fiscal 2008 because of the subprime mortgage crisis and the rise in foreclosures. Renters and senior citizens with fixed incomes are especially vulnerable to being displaced by foreclosure, and legal aid programs saw a dramatic increase in calls from people seeking assistance with housing and predatory lending matters.

LSC-funded programs responded to requests for such help in a variety of ways. Atlanta Legal Aid Society's Home Defense Project helped low-income homeowners fend off loan and refinance schemes that take equity out of homes or gain control of deeds and ownership rights. Legal Aid of North Carolina worked with creditors to negotiate solutions so that families can stay in their homes. Other LSC-funded programs being inundated with requests for legal assistance with foreclosures included those in Maine, Maryland, Missouri, Ohio, and New York City.

The economic downturn and the mortgage foreclosure crisis were not the only reasons LSC saw an increased demand for legal services. Natural disasters, such as Hurricanes Ike and Gustav, have devastated parts of Texas, Louisiana and Arkansas and increased the number of people without jobs, income and health care, while putting more poor people at risk of consumer fraud. Wildfires have prompted emergency declarations in California and Texas, and snowstorms led Ohio and Wisconsin to declare emergencies. Five Midwestern states suffered their worst flooding in a century this summer.

The Corporation's Texas and Louisiana programs are examples of the added workload caused by disasters. Lone Star Legal Aid has closed more than 10,000 hurricane-related cases since Katrina struck three years ago and has helped thousands through community outreach efforts—all before Ike hit on September 12, 2008. Texas RioGrande Legal Aid still has 100 cases open, out of 3,200 spawned by Katrina. Three 2008 hurricanes—Dolly, Gustav and Ike—added more than 1,700 new cases to the workload of Lone Star Legal Aid, and Dolly and Ike added more than 500 new cases at Texas RioGrande Legal Aid. New Orleans Legal Assistance continues to work on Katrina cases—about 70 percent of the legal problems handled by the program's housing and public benefits departments are related to Katrina. Long after the initial devastation of a natural disaster, low-income individuals and families continue to turn to legal aid attorneys for help in rebuilding their lives.

To strengthen the assistance provided to disaster victims, LSC and the American Red Cross entered into a memorandum of understanding on September 9, 2008 that will enhance cooperation and coordination during disasters. According to the memo, advocates employed by LSC grant recipients will have access to the Red Cross Service Delivery sites to conduct legal counseling. LSC also joined in September with three other organizations, including the American Bar Association, to launch a Web site (www.disasterlegalaid.org) that helps attorneys and individuals address legal issues that arise in the aftermath of major disasters.

Protecting Veterans' Rights

Since 1992, LSC has administered a veterans' pro bono program, funded, with congressional approval, through the U.S. Court of Appeals for Veterans Claims. The program provides legal representation on behalf of veterans who appeal adverse decisions by the Bureau of Veterans Affairs. LSC awards an annual grant to the Veterans' Consortium Pro Bono Program, which offers its services to veterans who do not have an attorney, assesses whether appellants' cases have merit, and then assigns cases with merit to pro bono attorneys it has recruited and trained. In 2007, the Consortium's pro bono representatives provided representation to 209 appellants before the Court of Appeals for Veterans Claims. The Consortium expects to provide representation to 231 appellants in 2008. For the last several years the veteran appellant has prevailed in three-fourths of the cases where they were represented by a Consortium pro bono attorney.

Expanding Services Through Technology

In an effort to help legal aid providers become more efficient and effective, LSC awarded \$2 million in technology grants to LSC programs. Since 2000, when the Technology Initiative Grant program began, LSC has awarded more than \$29 million in grants. The 2008 grants were used for technology that makes it easier for low-income Americans to apply for legal assistance, simplifies the creation of legal documents for those who are representing themselves in court and provides information through online chats, called LiveHelp. One LSC-funded program will use its grant to redesign portions of a Web site to make the content available via cell phone browsers.

Management's Discussion and Analysis • September 30, 2008 and 2007

Through the technology grant program, LSC helped the Legal Aid Society of Orange County, California, develop the I-CAN! E-File, a Web-based tax preparation program. During 2008, about 25,000 people used I-CAN! to prepare and submit their 2007 tax returns, allowing them to collect \$33 million in refunds. The program helps low-income working families collect their Earned Income Tax Credits without being charged excessive fees for tax preparation.

High-tech partnerships are a key to delivering legal services to the nation's poor. In 2008, LSC partnered with LexisNexis to launch the HotDocs Software Donation Program for legal aid programs. Through the program, LexisNexis provided free HotDocs software to eligible organizations, allowing them to save time by creating templates for documents that law offices use every day, such as court forms, real estate and lease agreements, contracts, correspondence and other material. The free software freed up thousands of dollars at programs for use elsewhere.

As technology improves, LSC is constantly exploring ways to use it as a tool to expand access to justice, by making self-help systems more available and by improving the efficiencies of programs to serve more low-income clients.

The unexpended Technology Initiative funds are to be used for future technology grants. Because the Technology Initiative funds have not been awarded, they are considered unearned and therefore reported as deferred revenue.

Strengthening Recruitment and Retention

LSC programs can only be as successful as the people who work in them, and LSC has sponsored a pilot Loan Repayment Assistance Program to recruit and retain talented attorneys. In 2008, nearly 300 attorneys at 55 LSC-funded programs applied to participate in LRAP. LSC plans to provide \$5,600 annually to 41 attorneys who work in 22 programs over the next three years. LSC's evaluation of the LRAP's first two years found that loan repayment assistance gives programs greater ability to hire and keep attorneys. Many newly hired attorneys are under financial pressure to leave their legal services programs to earn higher salaries. The Corporation's evaluation of LRAP found that participants had an average law school debt of \$84,150.

Grants From Other Funds

The Grants from Other Funds are derived from Grant Recoveries and have been earmarked by the Board of Directors for special and/or emergency program needs. No awards were made this year; the full amount of funds available in FY 2009 remains available for future grants and is included with the Reserved Fund Balance.

For budgeting purposes and full reporting to LSC's Board of Directors (Board) and the public, there is a slight reporting difference between the management discussion and analysis tables, which are derived from the monthly interim financial reports, and the annual financial statements. The Program Budget versus Actual Expenditures table (Table 3) reports grant expenditures of \$337,230,321 exclusive of the Loan Repayment Assistance Program (which is not a grant program) and the Statement of Activities reports expenditures of \$337,143,611; the difference is \$86,710. This is the amount of FY 2008 Grant Recoveries and this total is shown during the year as revenue collected outside of the appropriations process. This reporting provides the Board with an opportunity to revise the budget to include the funds in the budget line for Grants from Other Funds and provide emergency grants from that line. However, when the annual financial statements are completed, the total Grant Recoveries are used to offset Grants expenditures in the Statement of Activities. The detail of this reporting is shown in the financial statements, Note 5 – Grants and Contracts Expense.

Table 3 provides the budget, expenditure, and variance information for each element of the Delivery of Legal Assistance. The unexpended balances from Basic Field, Court of Veterans Appeals, and Technology Initiatives are combined in the financial statements in Part 2 and are shown as Deferred Revenue.

TABLE 3: Program Budget Versus Actual Expenditures

	Budget	Expenditures	Variance
Basic Field Programs	\$ 335,026,714	\$ 333,981,128	\$ 1,045,586
U.S. Court of Veterans Appeals	1,227,577	1,223,179	4,398
Technology Initiatives	2,409,605	2,026,014	383,591
Loan Repayment Assistance Program	795,708	324,866	470,842
Grants From Other Funds	847,963	0	847,963
Total	\$ 340,307,567	\$ 337,555,187	\$ 2,752,380

The unexpended Basic Field Programs funds represent two grantee service areas. The first service area is for Nevada because Nevada Legal Services is on short-term funding due to compliance issues; and the second is for the 2008 and 2007 funding for American Samoa. Funding for the U'Unai Legal Services Clinic in America Samoa was terminated on March 15, 2007, due to compliance issues, and no replacement grantee provider has been identified. The unexpended U.S. Court of Veterans Appeals funds are to be used to support next year's grant.

Management's Discussion and Analysis • September 30, 2008 and 2007

Improving Governance and Accountability

To strengthen its internal operations, LSC spent much of fiscal 2008 strengthening and modernizing its governance and accountability practices.

The LSC Board adopted a Code of Ethics and Conduct for directors, officers and employees of the Corporation, and LSC conducted training on the new code for all employees and officers. The LSC Board reorganized its oversight functions, establishing a board Audit Committee and approving charters for all standing board committees.

After an evaluation of financial standards used by LSC, the Board decided to continue to use the Governmental Accounting Standards Board guidelines for LSC's financial reports. To better respond to emergencies and catastrophic events, LSC management established a comprehensive Continuity of Operations Plan. LSC management will present a rigorous risk management program to the Board in January 2009.

During 2008, LSC management undertook an initiative to develop and implement policies for information sharing among the Office of Program Performance (OPP), Office of Compliance and Enforcement (OCE) and the Office of Inspector General and to improve coordination of program performance and compliance visits to LSC grantees. Under the initiative, OPP and OCE established a new protocol for information sharing, conducted in depth training sessions, and held quarterly staff meetings to continue coordination of work efforts. Recommendations by the Government Accountability Office were the catalyst for most of these changes, which were fully endorsed by the LSC board and management team.

LSC hosted an Executive Directors' Conference in June 2008 that brought together the leadership of all LSC-funded programs for two days of discussion on some of the most important topics confronting legal aid programs. The agenda covered such topics as grants management, internal financial controls, enhanced private attorney involvement, performance criteria, leadership mentoring, disaster planning, and improvements in quality. In comments sent to LSC after the conference, the Executive Directors said the gathering gave them a chance to discuss important issues, exchange ideas and information and learn more about their fellow executives.

The following table shows Management and Administration beginning and ending budgets.

TABLE 4: Management & Administration – Original and Revised FY 2008 Operating Budget

Budget Category	Original Budget	Final Budget	Increase (Decrease)
Compensation and benefits	\$ 10,215,085	\$ 10,225,310	\$ 10,225
Temporary employee pay	64,075	82,075	18,000
Consulting	943,775	1,074,175	130,400
Travel and transportation expenses	856,150	709,950	(146,200)
Communications	151,240	152,940	1,700
Occupancy cost	1,680,500	1,678,375	(2,125)
Printing and reproduction	113,100	113,100	0
Other operating expenses	611,525	1,188,025	576,500
Capital expenditures	214,900	151,400	(63,500)
Total	\$ 14,850,350	\$ 15,375,350	\$ 525,000

As a result of the quarterly expenditure reviews, internal budgetary adjustments were made to more closely align to this year's strategic initiatives. The original budget was increased \$525,000 because of a contribution of \$25,000 that was received to establish a Presidential Discretionary Fund and the \$500,000 reprogramming of LRAP funds to support FY 2009 management operating needs discussed earlier.

Table 5 presents the final M&A budget and expenditures, as well as the budget category variances. Over half of the total variance is attributable to personnel compensation and benefits for positions that were vacant during FY 2008 and the \$500,000 LRAP reprogrammed funds that are shown in other operating expenses.

Management's Discussion and Analysis • September 30, 2008 and 2007

TABLE 5: Management & Administration – Operating Budget versus Actual Expenditures

Budget Category	Final Budget	Expenditures	Variance
Compensation and benefits	\$ 10,225,310	\$ 9,901,937	\$ (323,373)
Temporary employee pay	82,075	69,121	(12,954)
Consulting	1,074,175	1,029,113	(45,062)
Travel and transportation expenses	709,950	627,916	(82,034)
Communications	152,940	120,701	(32,239)
Occupancy cost	1,678,375	1,661,722	(16,653)
Printing and reproduction	113,100	64,986	(48,114)
Other operating expenses	1,188,025	601,357	(586,668)
Capital expenditures	151,400	74,965	(76,435)
Total	\$ 15,375,350	\$ 14,151,818	\$ (1,223,532)
Depreciation and amortization		216,190	216,190
Loss on disposal of assets		1,139	1,139
Less: Capitalized assets		(74,965)	(74,965)
Total		\$ 14,294,182	\$ (1,081,168)

FY 2008 OIG Budgetary Analysis and Activity Description

The OIG has two principal duties pursuant to the Inspector General Act: (1) to assist the Board and management by identifying ways to promote efficiency and effectiveness in the activities and operations of LSC and its grantees; and (2) to prevent and detect fraud, waste, and abuse. Congress also gave the OIG oversight responsibility to ensure the quality and integrity of the financial and compliance audits performed by independent public accountants (IPAs). In addition, the OIG conducts on-site reviews of grantees as appropriate. To accomplish its mission, the OIG operates under its own multi-year strategic plan for the years 2007-2011. During FY 2008, Ronald D. Merryman served as the Acting Inspector General until March 2008, when Jeffrey E. Schanz was appointed by the LSC Board of Directors as the permanent LSC Inspector General.

The FY 2008 OIG budget funded reviews of external grant recipients, IPAs, and internal LSC management operations and activities.

Externally focused OIG projects included:

- Audits of selected internal control weaknesses at LSC grant recipients identified in the GAO Report entitled, Legal Services Corporation – Improved Internal Controls Needed in Grants Management and Oversight (five of these audit reports were issues during FY 2008);
- Reviews of 137 grantee audit reports with referral of significant findings to LSC management for resolution;
- Several audit quality reviews of the IPAs' grant recipient audits; and,
- Investigations related to compliance matters and theft or embezzlement of grantee funds, as well as fraud vulnerability reviews.

Additionally, the OIG continued its involvement in two important litigation efforts: seeking subpoena enforcement in support of an investigation of LSC grantee California Rural Legal Assistance's violations of Congressional restrictions; and, participating in discovery aspects of a lawsuit challenging LSC's program integrity regulation.

Internally focused projects, addressed to LSC management operations and activities, included:

- Responses to Congressional inquiries concerning the actions of the Board and management related to the GAO reports and related recommendations;
- Participation as an advisory member of a management task force that drafted a Code of Ethics and Conduct for application both to employees of the Corporation and to its Board of Directors;
- Assisting the LSC Board's Ad Hoc Committee and management in its efforts to develop appropriate policies in response to GAO recommendations regarding financial and compliance oversight;
- Assisting in the establishment of an Audit Committee;

Management's Discussion and Analysis • September 30, 2008 and 2007

- Oversight of the FY 2007 LSC corporate audit;
- Survey of personal and private information security within LSC; and,
- Comments on significant LSC regulatory and policy initiatives.

Other noteworthy projects included the recent renovation of the OIG's office suite to create more needed work areas and meeting facilities from the existing space.

The OIG budget presentation in Table 6 contains a comparison of the original and final operating budget for FY 2008. During the fiscal year, no reallocations of monies across the budget categories were made.

TABLE 6: Office of Inspector General – Original and Revised FY 2008 Operating Budget

Budget Category	Original Budget	Final Budget	Increase (Decrease)
Compensation and benefits	\$ 3,094,000	\$ 3,094,000	\$ 0
Temporary employee pay	25,000	25,000	0
Consulting	327,701	327,701	0
Travel and transportation expenses	178,000	178,000	0
Communications	24,600	24,600	0
Occupancy cost	1,000	1,000	0
Printing and reproduction	4,200	4,200	0
Other operating expenses	62,200	62,200	0
Capital expenditures	98,000	98,000	0
Total	\$ 3,814,701	\$ 3,814,701	\$ 0

Table 7 presents the OIG's FY 2008 final budget, expenditures, and budget category variances. The expenditure variances from the budget resulted from three and one-half unfilled budget positions related to the transition in OIG leadership, which entailed a hold on internal hiring and a delay in the suite renovation project required to accommodate planned additions to the OIG staff. The postponement of the OIG records management project resulted in variances in the consulting and other operating expenditure categories. Additionally, the OIG received a Congressional inquiry concerning LSC management practices which required a reallocation of personnel resources to internal work and resulted in variances in the travel expenditure category.

TABLE 7: Office of Inspector General – Operating Budget versus Actual Expenditures

Budget Category	Final Budget	Expenditures	Variance
Compensation and benefits	\$ 3,094,000	\$ 2,674,713	\$ (419,287)
Temporary employee pay	25,000	0	(25,000)
Consulting	327,701	39,167	(288,534)
Travel and transportation expenses	178,000	140,716	(37,284)
Communications	24,600	19,590	(5,010)
Occupancy cost	1,000	0	(1,000)
Printing and reproduction	4,200	2,286	(1,914)
Other operating expenses	62,200	17,716	(44,484)
Capital expenditures	98,000	82,815	(15,185)
Total	\$ 3,814,701	\$ 2,977,003	\$ (837,698)
Depreciation and amortization		0	0
Loss on disposal of assets		0	0
Less: Capitalized assets		(82,815)	(82,815)
Total		\$ 2,894,188	\$ (920,513)

Management's Discussion and Analysis • September 30, 2008 and 2007

The OIG provides the LSC and Congress with independent and objective assessments of opportunities to be more successful. In pursuit of the OIG Strategic Plan's goals and objectives, the OIG will perform audit, evaluation, and investigative activities in accordance with the IG Act and the LSC appropriations law. The OIG will continue to carry out its Congressionally-assigned responsibility to oversee the IPAs' grantee audits, conduct its own reviews of grantees compliance, conduct audits and investigations, maintain a hotline, and evaluate the effectiveness and efficiency of LSC and its grant recipient operations.

Capital Assets and Long-term Debt

Categories of capital assets are reported in Table 8. There is no short or long-term debt activity regarding capital assets.

TABLE 8: Capital Assets

	2008	2007
Furniture and Equipment	\$ 286,103	\$ 367,185
Software	79,970	79,970
Leasehold Improvements	152,217	130,683
Total Capital Assets (net)	\$ 518,290	\$ 577,838

Major Challenges

The need for basic legal services is large and growing. Nearly 51 million people—including 19.7 million women and 17.6 million children, are eligible for LSC-funded services, according to the most recent Census data. The ranks of the nation's poor will increase as the recession continues into 2009. There can be no doubt that low-income Americans will be most severely impacted by the recession.

An overwhelming unmet demand already existed for civil legal services before the economic downturn, as documented in the Corporation's Justice Gap Report. In order to close the justice gap, federal funding for civil legal aid to the poor would have to at least double from the 2005 level just to serve those who actually sought help and were eligible to receive it. In addition to the doubling of federal funds, other sources of funding, such as state, local and private funding, would also have to double.

Currently, LSC funds represent 42 percent of the total resources that LSC grantees receive. While non-LSC funding has increased over the years, the forecasts indicating substantial growth in funds derived from Interest on Lawyers' Trust Accounts (IOLTA) are being replaced with lower expectations because of a decline in interest rates. The recession also will likely reduce private contributions to legal aid programs.

As mentioned earlier, access to justice for civil matters can be expanded through partnerships. LSC has supported efforts by judges to build support for access to justice. Many state supreme courts have created access to justice commissions, and judges often encourage pro bono efforts. The LSC board is using LSC's national voice and its initiative "Help close the justice gap, unleash the power of pro bono" to encourage enhanced private attorney involvement as an effective tool for providing legal services to more persons in need. Ninety-six LSC-funded programs have adopted resolutions in support of increased pro bono assistance.

But LSC cannot fully realize its mission without securing more financial resources from the Congress. The federal government must lead the way, consistent with its role in maintaining the formal civil justice system, providing an orderly forum for the resolution of disputes, and providing an avenue to equal justice for all. The Legal Service Corporation's mission is to promote equal access to justice in our nation and to provide high-quality civil legal assistance to low-income persons.

Basic Financial Statements

Statement Of Net Assets And Governmental Fund Balance Sheet • September 30, 2008

	General Fund	Adjustments (Note A)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 67,452,106	\$	\$ 67,452,106
Grant recovery receivable	5,058		5,058
Loans and other receivables	339,699		339,699
Prepaid expenses and deposits	232,223		232,223
Capital assets (net)		518,290	518,290
	\$ 68,029,086	\$ 518,290	\$ 68,547,376
Liabilities			
Grants and contracts payable	\$ 61,513,267		\$ 61,513,267
Accounts payable	226,334		226,334
Accrued vacation and other liabilities	965,797		965,797
Deferred revenues	1,433,575		1,433,575
Total Liabilities	\$ 64,138,973		\$ 64,138,973
Fund Balances / Net Assets			
Fund balances:			
Reserved	1,326,304		
Unreserved	2,563,809		
Total fund balances	3,890,113		
Total liabilities and fund balances	68,029,086		
Net assets:			
Invested in capital assets, net of related debt		518,290	518,290
Restricted		3,890,113	3,890,113
Total Net Assets		\$ 4,408,403	\$ 4,408,403
			\$ 68,547,376

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	\$ 3,890,113
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund financial statements	518,290
Total net assets	\$ 4,408,403

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

Basic Financial Statements

Statement Of Net Assets And Governmental Fund Balance Sheet • September 30, 2007

	General Fund	Adjustments (Note A)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 67,002,866	\$	\$ 67,002,866
Grant recovery receivable	450,000		450,000
Loans Receivable	348,919		348,919
Accounts Receivable	7,263		7,263
Prepaid expenses and deposits	440,511		440,511
Capital assets (net)		577,838	577,838
	\$ 68,249,559	\$ 577,838	\$ 68,547,376
Liabilities			
Grants and contracts payable	\$ 59,611,053		\$ 59,611,053
Accounts payable	726,312		726,312
Accrued vacation and other liabilities	839,574		839,574
Deferred revenues	2,663,896		2,663,896
Total Liabilities	\$ 63,840,835		\$ 63,840,835
Fund Balances / Net Assets			
Fund balances:			
Reserved	1,026,656		
Unreserved	3,382,068		
Total fund balances	4,408,724		
Total liabilities and fund balances	68,249,559		
Net assets:			
Invested in capital assets, net of related debt		577,838	577,838
Restricted		4,408,724	4,408,724
Total Net Assets		\$ 4,986,562	\$ 4,986,562
			\$ 68,827,397

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	\$ 4,408,724
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the fund financial statements	577,838
Total net assets	\$ 4,986,562

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

Basic Financial Statements

Statement Of Activities And Governmental Fund Revenues, Expenditures, and Charges In Fund Balance •
Year Ended September 30, 2008

	General Fund	Adjustments (Note A)	Statement of Activities
Expenditures / Expenses			
Grants	\$ 337,143,611	\$	\$ 337,143,611
Board of Directors	169,166		169,166
Executive Office	895,166		895,166
Legal Affairs	1,391,466		1,391,466
Governmental Relations and Public Affairs	668,060		668,060
Human Resources	505,351		505,351
Financial and Administrative Services	2,920,300	(6,767)	2,913,533
Information Technology	1,368,847	(67,060)	1,301,787
Program Performance	3,115,043		3,115,043
Information Management	594,474		594,474
Compliance and Enforcement	2,435,491		2,435,491
Executive Director's National Conference	88,505		88,505
Office of Inspector General	2,977,003	(82,815)	2,894,188
Loan Repayment Assistance Program	324,866		324,866
Depreciation/amortization		216,190	216,190
	354,597,299	59,548	354,656,847
Program Revenues			
Federal Appropriations	350,490,000		350,490,000
U.S. Court of Veterans Appeals Funds	1,210,000		1,210,000
State Justice Institute	300,000		300,000
Change in deferred revenue	1,230,321		1,230,321
	353,230,321		353,230,321
General Revenues			
Contributed services	163,570		163,570
Interest and other income	684,797		684,797
	848,367		848,367
Excess of revenues over expenses	(518,611)	518,611	
Change in net assets		(578,159)	(578,159)
Fund Balance/net assets:			
Beginning of the year	4,408,724		4,408,724
Invested in capital assets, net		577,838	577,838
Net Assets, End of the year	\$ 3,890,113	\$ 518,290	\$ 4,408,403

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

Basic Financial Statements

Statement Of Activities And Governmental Fund Revenues, Expenditures, and Charges In Fund Balance •
Year Ended September 30, 2008

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 \$ (518,611)

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 expense during the current period. (59,548)

Change in net assets \$ (578,159)

Fund balance:		
Beginning of year	\$ 4,408,724	
Net change	(518,611)	
End of year	3,890,113	\$ 3,890,113

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	518,611	
Change in net assets	(578,159)	
Capital assets, beginning	577,838	
Capital assets (net)	\$ 518,290	\$ 518,290

Total net assets \$ 4,408,403

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

Basic Financial Statements

Statement Of Activities And Governmental Fund Revenues, Expenditures, and Charges In Fund Balance •
Year Ended September 30, 2007

	General Fund	Adjustments (Note A)	Statement of Activities
Expenditures / Expenses			
Grants	\$ 331,373,708	\$	\$ 331,373,708
Board of Directors	172,599		172,599
Executive Office	814,621		814,621
Legal Affairs	1,209,863		1,209,863
Governmental Relations and Public Affairs	678,872		678,872
Human Resources	490,417		490,417
Financial and Administrative Services	2,812,438	(1,205)	2,811,233
Information Technology	1,204,719	(104,452)	1,100,267
Program Performance	3,061,124		3,061,124
Information Management	625,336		625,336
Compliance and Enforcement	2,361,236		2,361,236
Office of Inspector General	2,539,779	(41,646)	2,498,133
Loan Repayment Assistance Program	201,619		201,619
Depreciation/amortization		256,070	256,070
	347,546,331	108,767	347,655,098
Program Revenues			
Federal Appropriations	348,578,000		348,578,000
U.S. Court of Veterans Appeals Funds	1,260,000		1,260,000
State Justice Institute	336,379		336,379
Change in deferred revenue	(2,468,506)		(2,468,506)
	347,705,873		347,705,873
General Revenues			
Interest and other income	487,044		487,044
	487,044		487,044
Excess of revenues over expenses	646,586	(646,586)	
Change in net assets		537,819	537,819
Fund Balance/net assets:			
Beginning of the year	3,762,138		3,762,138
Invested in capital assets, net		686,605	686,605
Net Assets, End of the year	\$ 4,408,724	\$ 577,838	\$ 4,986,562

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

Basic Financial Statements

Statement Of Activities And Governmental Fund Revenues, Expenditures, and Charges In Fund Balance •
Year Ended September 30, 2007

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 \$ 646,586

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 expense during the current period. (108,767)

Change in net assets \$ 537,819

Fund balance:		
Beginning of year	\$ 3,762,138	
Net change	646,586	
End of year	4,408,724	\$ 4,408,724

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	(646,586)	
Change in net assets	537,819	
Capital assets, beginning	686,605	
Capital assets (net)	\$ 577,838	\$ 577,838

Total net assets \$ 4,986,562

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

Basic Financial Statements

Notes to the Financial Statements • September 30, 2008 and 2007

1. Summary of Significant Accounting Policies

Reporting Entity

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

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). For financial reporting purposes, LSC is considered a governmental not-for-profit organization and follows the pronouncements of the Governmental Accounting Standards Board (GASB). The GASB is responsible for establishing U.S. GAAP for state, local, and other special purpose 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, as amended, 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 Balance (reporting financial transactions of LSC's major fund). For financial reporting purposes, LSC follows the guidance in GASB 34, as amended, for 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.

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 they are 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.

Cash and Cash Equivalents

LSC's cash and cash equivalents includes a fund balance with U.S. Treasury of \$37,973,519 and \$32,989,241 at September 30, 2008 and 2007, respectively.

Property and Equipment

Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years. Depreciation is reported as an unallocated expense and is not directly identified with individual functions.

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.

Revenues

The federal appropriations are reported as program revenue in the period expended. The appropriation remains available until expended and unexpended grant funds are shown as deferred revenue.

Fund Balance / Net Assets

The Board of Directors, through its fund allocation process, has designated \$1,326,304 and \$1,026,656 of the fund balance for continuing programs and administrative activities as of September 30, 2008 and 2007, respectively. Net assets are reported as restricted due to constraints imposed for their use by Congressional appropriation legislation.

Grantee Receivables and 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 may include recoveries of disallowed costs, excess fund balances,

Basic Financial Statements • September 30, 2008 and 2007

unexpended funds on Private Attorney Involvement programs and sanctions imposed by LSC for failure to comply with other regulatory requirements, as well as other types of recoveries.

LSC records a Grant Recovery Receivable when it is probable that LSC will require a grantee to return all or a portion of resources already received, in the amount LSC is expected to reclaim. As of September 30, 2008 and 2007, grant recovery receivables totaled \$5,058 and \$450,000, respectively. No allowance for uncollectible receivables has been recorded, as management deems these fully collectible.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Taxes

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

Concentration of Revenue

LSC receives substantially all of its revenue from direct federal government appropriations.

2. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, LSC's deposits may not be returned to it. LSC invests cash balances in excess of predefined target balances through repurchase agreements with two financial institutions. As of September 30, 2008, \$12,357,137 of LSC's bank balance of \$29,476,587, and as of September 30, 2007, \$15,335,184 of LSC's bank balance of \$34,011,625 was exposed to custodial credit risk as follows:

	2008	2009
Uninsured and uncollateralized	\$ 0	\$ 0
Uninsured and collateral held by pledging bank's trust department not in LSC's name	12,357,137	15,335,184
Total	\$ 12,357,137	\$ 15,335,184

3. Equipment

Property and equipment consists of the following at September 30, 2008

	Beginning Balance	Addition	Disposals	Ending Balance
Furniture and equipment	\$ 1,806,058	\$ 43,342	\$ (65,820)	\$ 1,783,580
Software	277,087	49,262		326,349
Leasehold improvements	255,361	65,176		320,537
Subtotal	2,338,506	157,780	(65,820)	2,430,466
Less: Accumulated depreciation/amortization	1,760,668	216,190	(64,681)	1,912,177
Capital assets (net)	\$ 577,838	\$ (58,410)	\$ (1,139)	\$ 518,290

Property and equipment consists of the following at September 30, 2007

	Beginning Balance	Addition	Disposals	Ending Balance
Furniture and equipment	\$ 1,886,749	\$ 101,002	\$ (181,693)	\$ 1,806,058
Software	375,601	41,362	(139,876)	277,087
Leasehold improvements	245,116	10,245		255,361
Subtotal	2,507,466	152,609	(321,569)	2,338,506
Less: Accumulated depreciation/amortization	1,820,861	256,070	(316,263)	1,760,668
Capital assets (net)	\$ 686,605	\$ (103,461)	\$ (5,306)	\$ 577,838

Depreciation/amortization expense for the years ended September 30, 2008 and 2007 are \$216,190 and \$256,070, respectively.

Basic Financial Statements • September 30, 2008 and 2007

4. Grant Revenue

LSC was awarded grants from the U.S. Court of Veterans Appeals for the purpose of furnishing legal assistance to veterans. Grant revenues for the years ended September 30, 2008 and 2007, total \$1,233,179 and \$1,260,000, respectively.

In addition, LSC was awarded grants from the State Justice Institute, a nonprofit organization established by federal law, for the purpose of funding LSC's technology initiative grants. Grant revenues for the years ended September 30, 2008 and 2007 total \$300,000 and \$336,379, respectively.

5. Grants and Contracts Expense

Grant funding provided to the Legal Services Corporation, pursuant to Public Law 110-5, was for basic field programs. Grants and contracts expense for the years September 30, 2008 and 2007, consists of the following:

	2008	2007
Basic Field Programs	\$ 333,981,129	\$ 328,276,432
Technology Initiatives	1,223,178	1,270,429
Technology Initiatives	2,026,014	2,446,012
Grant Resources	(86,710)	(619,165)
Total	\$ 337,143,611	\$ 331,373,708

6. 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. Several employees 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, 2008 and 2007 were \$837,743 and \$736,933, respectively. These amounts are included in compensation and benefits 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.

7. Leases

Related Party Lease

On June 1, 2003, LSC commenced an operating lease agreement for office space with the Friends of Legal Services Corporation ("FoLSC"), a nonprofit corporation whose primary purpose is to carryout activities that benefit LSC. Although LSC does not exert control or significant influence over the management or operations of FoLSC, the relationship of the two organizations is such that arms-length transactions may not be achieved.

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

Basic Financial Statements • September 30, 2008 and 2007

an appropriation from Congress for administrative costs sufficient to cover LSC and its rental obligations for any period during the term of the lease. Future minimum lease payments required under this lease are as follows:

	Amount
September 30, 2009	\$ 1,710,000
2010	1,710,000
2011	1,710,000
2012	1,710,000
2013	1,140,000
Total	\$ 7,980,000

Rental expense for the years ended September 30, 2008 and 2007 is \$1,710,000 each year. No amounts are due to or from FoLSC at September 30, 2008 and 2007.

Sublease

During fiscal year 2005, LSC entered into a five-year sublease to lease a portion of its space, expiring in fiscal year 2010. The lease agreement provides for an annual base rent of \$53,475 with a 2% annual increase. The total minimum payments required under this sublease are as follows:

	Amount
2009	\$ 56,869
2010	50,648
Total	\$ 107,517

Total sublease income in fiscal year 2008 and 2007 is approximately \$55,771 and \$54,681, respectively, and is reported as a reduction of rental expense in the accompanying financial statements.

8. Contingencies

Grants and Contracts

LSC receives its funding from appropriations by Congress and grants from the U.S. Court of Veterans Appeals and, accordingly, may be subject to federal audits. In addition, LSC provides significant funding to several independent organizations, which are subject to their own independent audits and audits by LSC. LSC's management does not expect any significant adjustments as a result of federal audits should they occur or from the audits of the grantees' independent organizations.

Claims

LSC is defending two cases in litigation involving challenges to LSC regulations. Plaintiffs in these cases are seeking injunctive relief but no monetary damages. One case includes a perfunctory claim for attorneys' fees, but LSC believes it to be entirely without merit.

Prior to 2008, the fees in these cases were paid by LSC's insurance carriers, but one carrier disputed coverage. LSC sued the carriers and settled in FY 2008 for approximately \$400,000. All future legal fees in these cases will be paid directly by LSC out of normal operating funds, and not be reimbursed by insurance carriers. No funds have been recorded in the financial statements for any contingent liability associated with future legal fees.

LSC is examining separate claims made by two former employees regarding their separation from LSC. To date, no litigation has been initiated. LSC believes that any cost in these matters will be insignificant to the financial statements. No funds have been recorded in the financial statements for any contingent liability in connections with these matters.

Loan Repayment Assistance Program

LSC initiated a Loan Repayment Assistance Program in 2006 that provided loans up to \$5,000 annually for participating attorneys. In 2007, loans increased to \$5,600 annually. For the years ended September 30, 2008 and 2007, participating attorneys received loans (net of repayments) totaling \$295,490 and \$348,919, respectively, and have been reflected as receivables in the accompanying statements of net assets and governmental fund balance sheets. The 2007 loans forgiven in FY 2008 totaled \$324,866 and the 2006 loans that were forgiven in 2007 were \$201,619. Each loan and the related interest are to be forgiven provided that the participating attorneys successfully complete employment within the loan terms. No provision has been made in the accompanying financial statements to reflect any loss that may occur. No interest on the loans has been accrued as management has deemed these amounts to be immaterial.

Basic Financial Statements • September 30, 2008 and 2007



WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

8403 Colesville Road, Suite 340
Silver Spring, Maryland 20910-6331 USA
301 585 7990 • fax 301.585.7975
www.withum.com
Additional Offices in New Jersey
New York and Pennsylvania

**Report On Internal Control over Financial Reporting and On Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

To the Inspector General and Board of Directors,
Legal Services Corporation:

We have audited the financial statements of the Legal Services Corporation as of and for the year ended September 30, 2008 and have issued our report thereon dated January 6, 2009. 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.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered LSC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LSC's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects LSC's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of LSC's financial statements that is more than inconsequential will not be prevented or detected by LSC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by LSC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters: 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 08-1.

We noted certain matters that we reported to management of LSC in a separate letter dated January 6, 2009.

LSC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit LSC's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Inspector General, Board of Directors, others within the organization, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

January 6, 2009

Basic Financial Statements • September 30, 2008 and 2007

**Legal Services Corporation
Schedule of Findings and Responses
September 30, 2008**

Finding 08-1: **Classification of certain workers as independent contractors**

LSC has entered into consulting agreements with various personnel to perform services to LSC. LSC treats these workers as independent contractors, rather than employees, and therefore does not withhold or remit employer and employee's share of Social Security and Medicare taxes, and does not withhold or remit any employee income taxes. However, we noted significant internal communication to suggest that some of these workers, particularly workers in the Office of Compliance and Enforcement (OCE); should be more appropriately classified as employees for payroll tax purposes, in accordance with Internal Revenue Code Section 3121 and related laws and regulations.

LSC pays consultant fees to OCE workers totaling approximately \$140,000 to \$183,000 per year. Although LSC appears to have been internally debating this issue for a number of years, LSC has not taken appropriate steps to ensure it is in compliance with the law or can sufficiently support the position it has taken, such as obtaining an outside legal opinion or obtaining an IRS determination. Should the IRS subsequently determine that these workers should be treated as employees, LSC could be subject to back taxes, fines, penalties, and/or interest.

We recommend that LSC engage outside legal counsel to review this matter and consider obtaining a legal opinion or explore other options, such as submitting form SS-8 *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding* to the IRS, to ensure that LSC is fully compliant with this area of the Internal Revenue Code.

Management's Response

During FY 2008, LSC Management initiated a review of the proper classification of consultants that provide services to LSC, especially the consultants used by the Office of Compliance and Enforcement and the Office of Program Performance. The Office of Legal Affairs (OLA) is expected to complete an analysis of the use of consultants in early 2009. Also, on October 28, 2008, the Office of Inspector General (OIG) informed Management of their plan to conduct a review of LSC's contracting practices. Once the OLA and OIG reviews are complete, the Corporation will obtain outside counsel review and make any necessary modifications to its practices.

Auditors' Evaluation of Management's Response

Management's proposed corrective actions appear to be responsive to the finding.



America's Partner For Equal Justice

For further information, contact:

Office of Government Relations and Public Affairs
Legal Services Corporation
3333 K Street, NW
Washington, DC 20007
202.295.1617

For information about LSC, visit www.lsc.gov





America's Partner For Equal Justice

2008 Annual Report

Serving the Most Vulnerable Among Us