



LEGAL SERVICES CORPORATION 2010 ANNUAL REPORT

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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

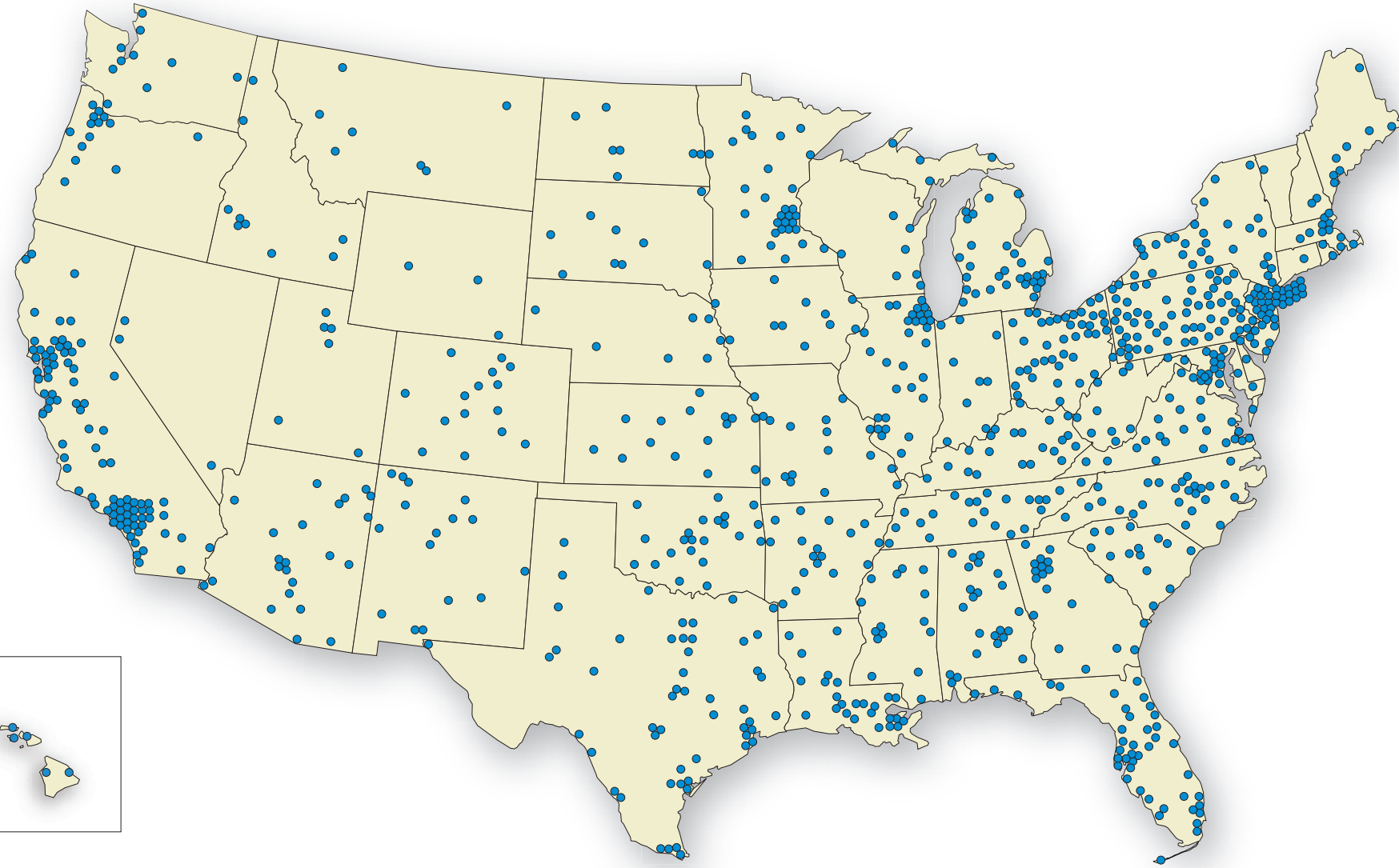
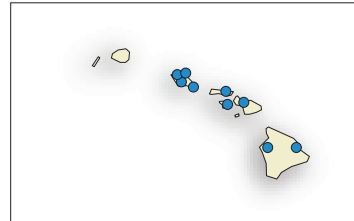
LOUISIANA

Acadiana Legal Service Corporation

Capital Area Legal Services Corporation

Legal Services of North Louisiana

Southeast Louisiana Legal Services Corporation



The Legal Services Corporation provides grants to 136 independent, nonprofit organizations that provide free civil legal services to low-income Americans from 919 offices located in every state, the District of Columbia and the territories of the United States of America.

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

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 Cumberland

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

Legal Services of Northern Virginia

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

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 Mission

For more than three decades, the Legal Services Corporation has touched the lives of millions of low-income Americans, addressing the civil legal needs of the elderly, victims of domestic violence, veterans seeking benefits to which they are entitled, disabled individuals, tenants facing unlawful evictions, and others.

In founding LSC, Congress entrusted the Corporation with a dual mission: to provide equal access to justice and to ensure the delivery of high-quality civil legal assistance to those who would be otherwise unable to afford counsel.

Today, LSC is the single largest funder of civil legal services in the nation and is at the forefront of a public-private partnership focused on fulfilling America's pledge of equal justice for all.



“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

LSC: 2010 by the Numbers

An estimated **63,061,000** Americans were eligible for LSC-funded assistance.

And **22,250,000** of them were children.

LSC-funded programs closed a total of **932,406** civil legal aid cases.

In those cases, **661,434** of the clients were women.

36,033 private attorneys helped LSC programs by taking cases.

Private attorneys closed **107,621** cases.

9,059 full-time staff worked at LSC-funded programs.

Of those full-time staff, **4,351** were attorneys.

They were assisted by **1,614** paralegals.

Legal services were provided at **919** LSC-funded offices.

The offices were operated by **136** nonprofit legal aid programs funded by LSC.

Making a Difference

The need for civil legal assistance has never been greater. Low-income Americans are struggling to keep their jobs, homes and basic necessities for their families, and the number of low-income persons in poverty keeps rising. Even before the 2008 recession, studies in several states found that about 80 percent of the legal needs of low-income families go unmet. Increasing numbers of unrepresented litigants are swamping state courts, especially those that deal with housing and family law matters.

To help uphold the national promise of equal access to justice, the Legal Services Corporation, established by the Congress, provides grants, guidance, training and oversight to 136 nonprofit legal aid programs across the nation. The programs offer a wide range of civil legal assistance to their clients, especially in such areas as family and housing law and consumer matters.

The clients served by these legal aid programs are at or below 125 percent of the federal poverty threshold—an income of \$27,563 a year for a family of four.

Today, civil legal assistance makes a significant difference in the health of low-income communities by providing critical solutions and opportunities for self-sufficiency to low-income Americans.



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Letter From The Chairman

New Leadership, New Era

As the Chairman of the Board of Directors of the Legal Services Corporation, I am pleased to introduce this 2010 Annual Report. 2010 was a remarkable, and challenging, year for the Corporation, as our new Board was fully confirmed, sworn in, and confronted with the reality of burgeoning requests for civil legal assistance in an environment where non-federal funding was declining or flat.

The Corporation's mission—equal access to justice—has never been more critical. This fundamental value is not a lofty abstraction. Over the last three years, as the nation's recovers from the economic downturn, LSC programs have seen dramatic spikes in cases related to the economy: mortgage foreclosure cases up 128 percent; unemployment compensation cases up 80 percent; domestic violence cases up 9 percent. LSC-funded cases involved households with 2.3 million people, and LSC estimates that 63 million Americans are now eligible for our services—an increase of 17 percent since 2008. The magnitude of the task we face cannot be overstated.

At its meetings, the LSC Board has focused on the needs of clients and the resource constraints that affect the delivery of legal assistance. In Milwaukee, the Board convened an Executive Directors Roundtable to hear directly about priorities in the field, and in Tucson received presentations from our three Arizona programs on the delivery of legal services in urban, rural and Native American communities. In Louisville, panel discussions provided overviews on legal services in Appalachia and on the impact of the Gulf of Mexico oil drilling disaster.

One of our Board's first significant undertakings was to conduct a nationwide search to recruit a new LSC President. Our Search Committee recommended James J. Sandman for the position, and he took office as President and chief executive in early 2011. Jim is a former managing partner at the law firm of Arnold & Porter LLP and served as General Counsel to the District of Columbia Public Schools. An extraordinary leader, Jim Sandman brings managerial excellence to LSC and a lifelong passion for expanding access to justice. The Board was greatly aided in conducting this search by a distinguished advisory group.



"The magnitude of the task we face cannot be overstated."

The Board also is particularly grateful to Victor M. Fortuno, LSC's longtime General Counsel who served for a year as interim president following Helaine M. Barnett's retirement. Vic was responsible for our Board's smooth transition into office.

During the year, the Board created a Special Task Force on Fiscal Oversight and affirmed its commitment to be vigilant stewards of the appropriations that are entrusted to us. In November, we also launched an initiative to help veterans and military families. LSC's technology grant program funded StatesideLegal.org, the first national website focused on legal problems of veterans and military families, and awarded grants to make it easier for veterans and the public to obtain legal information.

We also benefited greatly from our firsthand contact with LSC's network throughout the country. Together, these LSC-funded programs address the civil legal needs of victims of domestic violence, veterans returning from abroad, disabled individuals, families facing foreclosure and other low-income Americans.

Every day, the lawyers and staff at these programs work hard to ensure that clients are treated with fairness in the resolution of their legal problems and that low-income Americans have a place to turn for help in managing their civil legal needs. We thank these dedicated individuals and their programs for the invaluable service they are performing on behalf of the nation.

John G. Levi
Chairman, Board of Directors
Legal Services Corporation
July 15, 2011

President's Message

Strengthening Access to Justice

The cover of this Annual Report shows the pediment of the U.S. Supreme Court building and its pledge of "Equal Justice Under Law." Our nation is committed to the rule of law.

Congress, in establishing the Legal Services Corporation, entrusted LSC with the mission of providing equal access to justice. Over the years, millions of low-income Americans have counted on LSC-funded programs to provide them with high-quality civil legal services. LSC is the bedrock on which our national system of access to civil justice stands—and its foundation for the future.

I often tell people that being LSC President is the best job in American law. I mean it. I can think of no more important objective of our legal system than to provide meaningful access to justice. And I can think of no better position from which to address that objective than the one I now have.

We have a long way to go before "equal justice under law" is a reality for all Americans, but I am determined to do all I can to deliver on our national commitment. My goals as LSC President are to increase funding for civil legal services; to maximize the efficiency, effectiveness and quality of LSC and of the legal aid programs that receive LSC grants; to promote innovation and entrepreneurship within LSC and among the programs it funds; and to enhance collaborations with judges, state Access to Justice Commissions, the organized bar, private attorneys, foundations, law schools, IOLTA programs, and others involved in serving the needs of low-income Americans.

Collaboration across the access to justice community is particularly important in an era of reduced resources and increased demand for civil legal services. By coordinating with and reaching out to others, I hope to increase the efficiency of service delivery to clients, avoid unnecessary duplication of effort, and streamline LSC's dealings with the programs it funds.

I am honored to have been selected by the LSC Board of Directors to serve as LSC's chief executive. I also appreciate the warm welcome I have received at the LSC-funded programs I have visited and at the regional meetings and national conferences I have attended.

At a time when many low-income Americans are struggling



"The 136 programs in the LSC network are filled with dedicated public servants who make a difference in the lives of low-income Americans."

with foreclosures, evictions, unemployment, and other pressing civil legal issues, it is important that we recognize and celebrate the attorneys, paralegals, and support staff who respond to requests for legal assistance every day in every state. The 136 programs in the LSC network are filled with dedicated public servants who make a difference in the lives of low-income Americans. I look forward to working alongside them as we bring legal services to a new level of excellence.

James J. Sandman
President

Legal Services Corporation

July 15, 2011

New Leadership For Legal Services



2010 HIGHLIGHTS: Six new LSC Board members take the oath of office, administered by Supreme Court Justice Anthony M. Kennedy, on April 7 at The Eisenhower Executive Office Building (top center). Attorney General Eric H. Holder Jr. joins LSC Board Chairman Levi for a Black History Month Observance (top left). Levi with Vice President Biden (top right) on Nov. 19 for launch of veterans initiative. Board members (at left) in Louisville, Ky., for October meeting. Laurie Mikva and Levi at the American Red Cross Sept. 2 with Juliet K. Choi (below). Tucson meeting in April (below left) included Anthony L. Young, Levi, Lillian O. Johnson, Arizona Supreme Court Justice John Pelander, and Levon Henry. LSC General Counsel Victor M. Fortuno welcomes Rep. Jose E. Serrano (bottom left) to Hispanic Heritage Month Celebration.

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LSC Board of Directors

LSC is headed by an 11-member Board of Directors appointed by the President and confirmed by the Senate.



John G. Levi, *Chairman*
Partner in the Chicago office of Sidley Austin, LLP.



Martha Minow, *Vice Chair*
Dean of Harvard Law School and the Jeremiah Smith Jr. Professor of Law.



Sharon L. Browne
Principal attorney in the Pacific Legal Foundation's Individual Rights Practice group and a member of the Foundation's senior management.



Robert J. Grey Jr.
Partner in the Richmond and Washington offices of Hunton & Williams LLP.



Charles N.W. Keckler
Professor at Pennsylvania State University's Dickinson School of Law.



Harry J.F. Korrell III
Partner in the Seattle office of Davis Wright Tremaine LLP.



Victor B. Maddox
Partner in the Louisville, Ky., firm of Fultz Maddox Hovious & Dickens PLC.



Laurie Mikva
Staff attorney in the Office of Legal Counsel at the Illinois Department of Employment Security.



The Rev. Pius Pietrzyk, O.P.
Priest in the parish of St. Thomas Aquinas in Zanesville, Ohio.



Julie A. Reiskin
Executive Director of the Colorado Cross-Disability Coalition.



Gloria Valencia-Weber
Professor at the University of New Mexico School of Law.

Committees (*Non-Director member)

Audit

Maddox, *Chair*; Korrell; Valencia-Weber

Development

Levi, *Chair*; Minow; Grey; Keckler; Fr. Pius; Herbert S. Garten*; Thomas Smegal*; Frank B. Strickland*

Finance

Grey, *Chair*; Browne; Minow; Fr. Pius; Robert E. Henley Jr.*

Governance and Performance Review

Minow, *Chair*; Browne; Keckler; Reiskin

Operations and Regulations

Keckler, *Chair*; Grey; Korrell; Mikva

Promotion and Provision for the Delivery of Legal Services

Mikva, *Chair*; Browne; Maddox; Fr. Pius; Reiskin

Activities 2010

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“Equal justice under law is not merely a caption on the façade of the Supreme Court building, it is perhaps the most inspiring ideal of our society. It is one of the ends for which our entire legal system exists....it is fundamental that justice should be the same, in substance and availability, without regard to economic status.”

—*Supreme Court Justice Lewis F. Powell Jr.*

The future is brighter for the millions of Americans who have been served by the 136 nonprofit civil legal aid programs that are funded by the Legal Services Corporation.

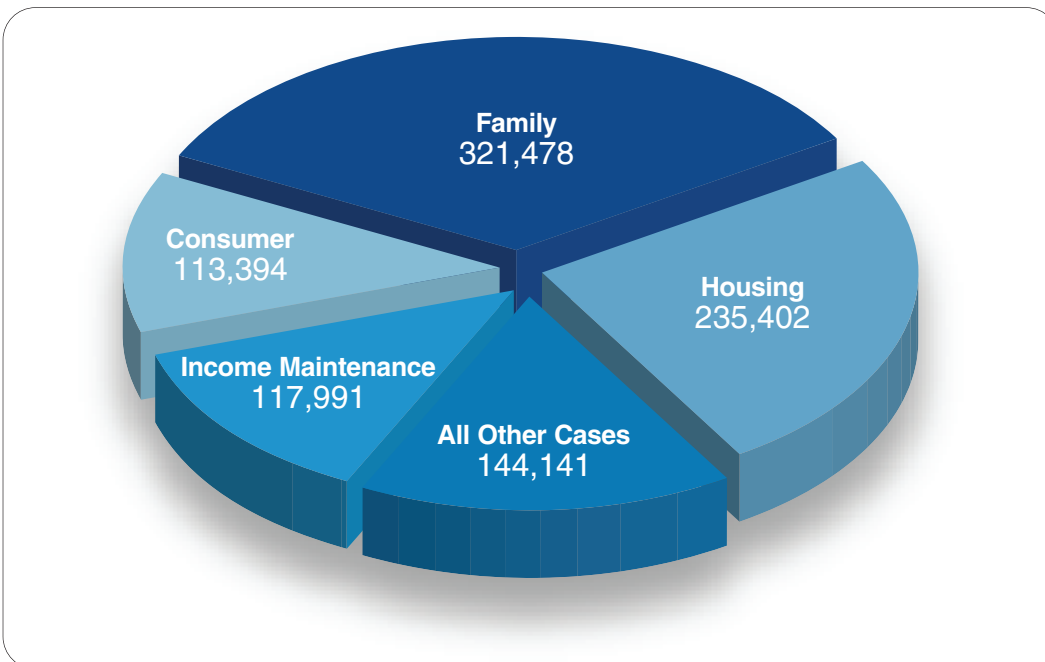
These LSC program closed more cases in 2010 than the year before, and their casework reflected our nation’s slow recovery from the economic downturn. Matters involving foreclosures, landlord-tenant disputes, unemployment, bankruptcy and consumer finance, and, sadly,

domestic violence all increased in 2010 compared to the previous year.

At many LSC-funded programs, cases related to the economy have increased for three consecutive years. During this period, Congress provided LSC with budget increases, with the Corporation receiving \$420 million in funding for Fiscal Year 2010.

Still, the number of Americans living in poverty and eligible for LSC-funded services continues to grow, and many LSC programs are unable to meet the legal needs of those who sought civil legal assistance. Despite a 7.7 percent rise in LSC funding in 2010, significant sources of non-federal funding were essentially flat or declined, constraining the expansion of legal assistance.

Cases Closed by LSC Grantees in 2010



LSC programs, despite such challenges, are resilient and innovative. Since 2008, the number of cases closed through the involvement of private attorneys has increased by 16 percent. In 2010, 12 percent of LSC's total cases were handled by pro bono volunteers and other private attorneys—a remarkable achievement. LSC programs also continue to reach more citizens through websites, and increasing numbers of legal forms and other information are being downloaded every year.

By narrowing the justice gap, LSC programs are reaffirming our national commitment to the rule of law and bringing self-sufficiency and stability to low-income individuals and families across our country.

Activities 2010

Supporting Americans During the Recovery

Over the last three years, millions of Americans have been at risk of falling deeper into poverty or slipping into poverty for the first time. LSC-funded programs across America have helped people get back on their feet and even get a fresh start in life.

During 2010, requests for assistance with unemployment compensation claims, food stamps, and bankruptcy and debt relief increased at LSC programs. In the area of unemployment compensation, the number of matters brought by low-income Americans to LSC programs increased by 80 percent from 2008 to 2010.

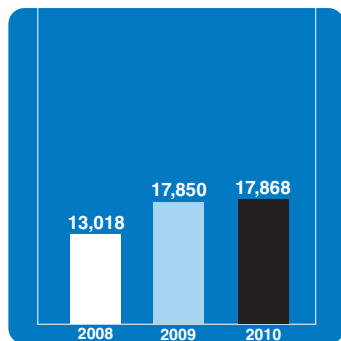
Through their support of low-income Americans during the economic recovery, LSC programs help families obtain benefits to pay their rent and mortgages and to provide for their dependents—young and old. Many LSC programs participate in neighborhood clinics or events to provide brief advice to jobless persons, and they have developed self-help and educational materials to aid clients in filing unemployment compensation appeals that are less likely to be blocked by administrative or procedural hurdles.

In another reflection of the impact of the recession and subsequent slow economic recovery, bankruptcy and debt relief matters increased significantly, growing by 24 percent from 2008 to 2010.

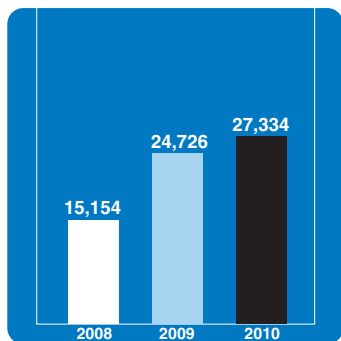
Programs addressed the rising demand in varied ways. For example, Colorado Legal Services created a special unit for consumer issues, and the Legal Aid Foundation of Los Angeles added a monthly clinic to its regular intake and hotline to address an overflow of requests involving consumer issues.



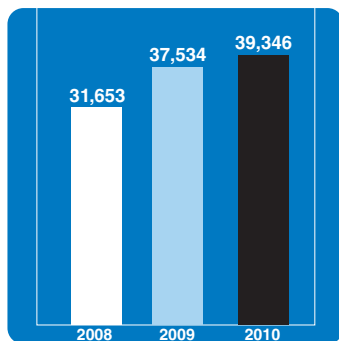
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Food Stamps



Unemployment Compensation



Bankruptcy and Debt Relief

RECESSION-RELATED CASES: Many LSC-funded programs in 2010 were overwhelmed with requests for help from low-income Americans, often because of hardships suffered as a result of the weak economy. As the number of cases increased, LSC programs also felt the impact of the downturn, because significant sources of non-federal funding were essentially flat or declining during 2008-2010.

Activities 2010

Serving Veterans and Military Families

One of LSC's major initiatives in 2010 focused on improving access to justice for low-income military veterans and for military families. Many veterans who have served in combat zones are confronting legal problems—involving employment, homelessness, and child custody—that are handled on a regular basis by LSC-funded programs.

Local legal aid offices are gateways for veterans in need of civil legal assistance. These offices have established networks with bar association pro bono programs, law school clinics and social services agencies, and are experienced in using Help Lines to provide information on complex subjects.

In 2010, LSC launched StatesideLegal.org, developed through a Technology Initiative Grant by Pine Tree Legal Assistance in Maine. It is a free resource for low-income individuals with a military connection, including veterans and current members of the military and their families. Information on the website covers such topics as disability benefits, employment and legal protections for service members confronted with foreclosure proceedings.

LSC also began an awareness campaign, reaching out to the Veterans Affairs Department's Readjustment Counseling Service, known as the Vet Center Program, to share information about legal services and to create appropriate referral systems to minimize veterans' frustrations in obtaining advice and representation on civil legal problems.

Over the years, LSC programs have developed notable initiatives to serve veterans. They include:

- The Veterans Consortium Pro Bono Program, a partnership of major Veterans Services Organizations, which provides pro bono representation for pro se appellants before the U.S. Court of Appeals for Veterans Claims.
- The Bill Smith Homeless Veterans Project at the Legal Aid Foundation of Los Angeles, to assist veterans who are homeless or at imminent risk of becoming homeless on a wide range of legal issues.



- The Veterans' Rights Project at the Legal Aid Foundation of Metropolitan Chicago, to help veterans secure VA benefits and protect their legal rights on consumer, housing and related issues.
- The Kentucky Corps of Advocates for Veterans at the Legal Aid Society of Louisville, Ky., a collaboration with the state bar, the courts, the Kentucky Department of Veterans, and Veterans Services Organizations to increase legal assistance available to veterans.



www.StatesideLegal.org

Activities 2010

Helping Families Keep Their Homes

Almost all LSC-funded programs have experienced a rise in requests for help from low-income Americans facing foreclosure, and more than 40 LSC-funded programs have established foreclosure units to help families stay in their homes or resolve mortgage-related issues.

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

Several LSC programs have become well-known in their work on foreclosure matters, which are often labor-intensive and complex. They include Atlanta Legal Aid, Texas RioGrande Legal Aid, Legal Services of Greater Miami, Legal Aid Foundation of Metropolitan Chicago, Indiana Legal Services, Iowa Legal Services, Legal Services NYC and the LSC programs in western and eastern Missouri.

Pine Tree Legal Assistance in Maine was at the center of a major court ruling. A volunteer lawyer affiliated with the LSC program discovered that proper procedures were not followed in a foreclosure action, ultimately triggering foreclosure suspensions in 23 states by large lenders.

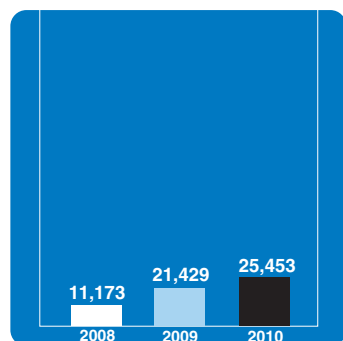
Several LSC programs provide housing counseling to homeowners who seek it; others work with housing counselors to advise them when to refer homeowners to lawyers to review their problems. West Tennessee Legal Services sponsors several counseling projects through NeighborWorks



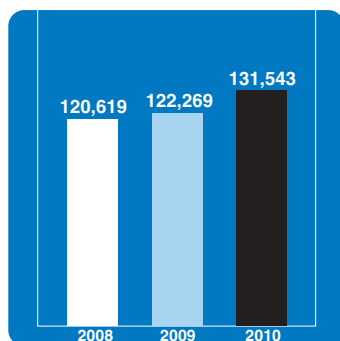
America, the congressionally-chartered nonprofit organization dedicated to improving distressed communities.

LSC programs also have participated on state Supreme Court commissions that have led to the establishment of mediation programs for foreclosures. Mediation is a particularly helpful tool for the representation of those who started on loan modification programs, such as the government's Making Home Affordable plan, because mediators often require the full participation of lenders.

In addition to stepping up efforts to help low-income homeowners and renters cope with foreclosure, LSC programs have continued handling more traditional housing problems, such as landlord-tenant disputes. Landlord-tenant cases have also increased since the 2008 recession. Overall, housing cases represent 25 percent of all the cases closed by LSC programs.



Foreclosures & Predatory Lending



Private Landlord/Tenant

SAVING HOMES: A roof over one's head is a basic necessity. Since 2008, LSC-funded programs have seen a doubling in requests from low-income Americans for help with foreclosures. Housing cases represent the second-largest category of work by LSC programs. Requests include complaints about seriously defective living conditions, substandard housing, unfair landlord practices and other matters that may leave a family at risk of homelessness.

Activities 2010

Protecting Victims of Domestic Violence

Family law cases represent about 35 percent of the cases closed by LSC-funded programs each year. The legal services provided to victims of domestic violence are among the most important family law matters.

One of the leading causes of homelessness for women and children is domestic violence. Studies show that domestic violence is more severe in disadvantaged neighborhoods and occurs more frequently in households facing economic stress. Between 2008 and 2010, domestic abuse cases grew by 9 percent at LSC-funded programs.

Domestic violence victims are among the most vulnerable Americans served by LSC programs. In a Missouri case, a husband tried to kill his wife and their daughter by setting the house on fire. When his wife ran from him, he found her and smashed her head with a gun, causing serious brain injury. Legal Aid of Western Missouri enrolled her in the state's protection program and helped her get a divorce and sole custody of her daughter.

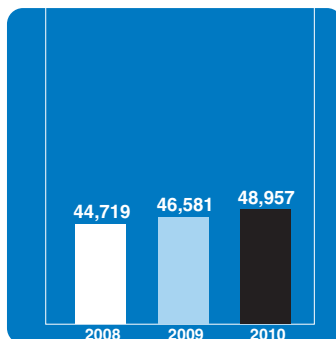
As this case shows, LSC programs are in the vanguard of the government's efforts to protect those facing family violence



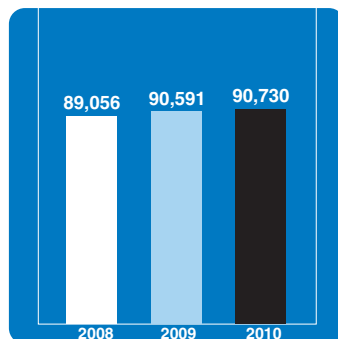
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and abuse. Often, survivors of domestic violence experience problems that extend beyond personal injuries. Physical safety, financial stability and economic independence preoccupy victims of domestic violence as they struggle to ensure their children have a safe and nurturing environment.

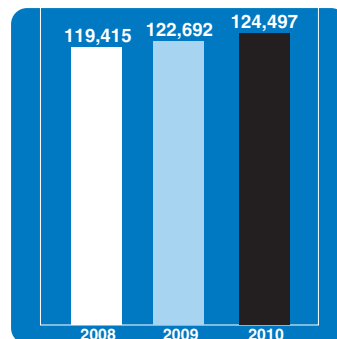
Every year, the LSC Board of Directors recognizes pro bono lawyers and other volunteers for their assistance in obtaining protection orders and for helping domestic violence victims put their lives back together.



Domestic Abuse



Custody/Visitation



Divorce and Separation

WORKING FOR FAMILIES: Legal services programs across the nation assist 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, and the vast majority of divorce cases involve child custody issues and domestic violence. These charts show the numbers of cases handled in three areas of family law.

Activities 2010

Increasing Efficiency and Access to Legal Aid

Legal aid programs across the country are always looking for new ways to improve efficiency and increase access to the client population in their service area. Because of limited staff and resources, the systems that LSC programs use to conduct client intake—most often telephone hotlines and in-person interviews—are often overwhelmed by the demand for legal services, resulting in frustrated clients who have pressing legal problems. Now, because of an LSC Technology Initiative Grant (TIG), an innovative model is providing LSC programs with an opportunity to augment traditional intake methods with online intake.

In the fall of 2007, LSC awarded TIG funding to Legal Aid of Western Ohio (LAWO) to develop a new, user-friendly online intake system designed for clients who need alternatives to the traditional 9-to-5 telephone and in-person application process. The online project began in 2008 and was completed in 2010.

Using a technology program called A2J Author[®] (developed specifically to address the needs of self-represented litigants and supported in part by earlier TIG awards), LAWO created a user-friendly online interview that guides potential legal aid clients through a series of easy-to-follow questions that helps LAWO better understand their problems. Once the potential client completes the interview, the person receives suggestions on how to respond to emergency situations and printable information appropriate to their problem.

At the local LSC program, the information completed by the potential client goes into a holding queue outside the program's case management system for checks of any potential conflict

that would prohibit the program from representing the client. If it is determined no conflict exists, with the click of a button the intake worker imports all the information from the interview into the program's case management system for review. The intake worker then contacts the potential client and the intake proceeds as if the client interview had been conducted by phone or in person.

The A2J online application and case management system integration has resulted in a significant savings of time and has made the intake process more efficient, saving approximately 10 to 15 minutes of staff time per application. It is estimated that the increased efficiency has resulted in time savings equivalent to 1 to 1.5 full-time employees.

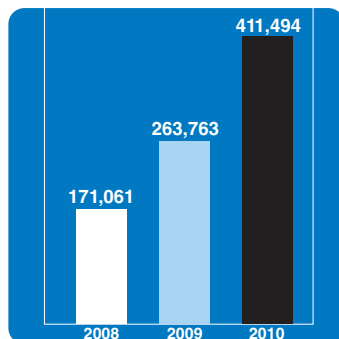
Survey data indicate that more than 94 percent of potential clients find the A2J application easy to use and that the same high number would recommend it to a friend. The online web-based application is available 24/7. And online users receive immediate information with practical suggestions as to what they can do regarding their situation while they wait for a call about their application.

LAWO has found that it receives 33 percent of all intake applications online, and of those, almost two-thirds come from people in rural areas, demonstrating that providing an online application process can help increase access to legal services for clients who have historically faced geographic barriers.

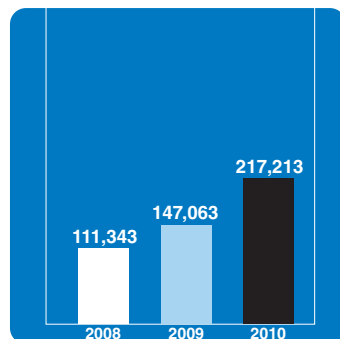
In Ohio, the Legal Aid Society of Columbus launched its version of an A2J online intake application in March 2010, and three other legal aid programs are in various stages of development, including Community Legal Aid Services, Inc., the Legal Aid Society of Cleveland, and Southeast Ohio Legal Services.

As of late 2010, at least 10 other legal aid programs across the country had started similar online intake projects, and more than 35 programs were in the process of researching future projects. LAWO is helping facilitate replication of this TIG project by providing technical support to other programs, conducting training for the legal aid community at national conferences and online webinars, and posting resource materials online at the A2J (www.a2jauthor.org) and National Technology Assistance Project (www.lsntap.org) websites.

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LHI Interviews Conducted*



LHI Documents Generated*

*A2J Author[®] is used by the LSC-funded project LawHelpInteractive.org (LHI) to help produce legal documents.

Activities 2010

Strengthening Oversight of Fiscal Matters

To provide for the effective delivery of legal services to clients, the LSC Board and the LSC staff are committed to ensuring that the funds appropriated by the Congress are well spent.

In 2010, the Board established the Special Task Force on Fiscal Oversight to review LSC's current practices and to make recommendations regarding LSC's fiscal oversight of the independent nonprofit legal aid programs that receive LSC grants.

The task force, led by the chairmen of the Board's Audit and Finance committees, includes leaders with outstanding experience in grants administration, audits and internal controls, executive leadership, and the best practices of foundations and charitable organizations. The Board expects to receive the task force's report in mid-summer 2011.

As a testament to the Board's resolve to ensure the efficiency and effectiveness of the governance and management of the Corporation, LSC has implemented all 17 of the recommendations in the 2007 reports of the Government Accountability Office (GAO). GAO issued determinations that all recommendations requiring action by the Board and management were closed.

In particular, LSC developed new procedures to evaluate grant awards and internal financial controls and hired an independent risk assessment consultant to examine LSC's internal controls within the grant-making process.

"These new procedures help strengthen LSC's internal control environment and reduces the risk that internal control failures, including unauthorized or improper use of federal funds or violations of laws or regulations, will occur and not be detected," the GAO said.

LSC is currently implementing recommendations from a June 2010 GAO report regarding controls over grant awards and grantee program effectiveness. LSC believes that 13 of the 17 recommendations in that report have been implemented and is awaiting GAO's confirmation.

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

Special Task Force on Fiscal Oversight

The task force co-chairmen are:

Robert J. Grey Jr., chairman of the Finance Committee.

Victor B. Maddox, chairman of the Audit Committee.

The task force members are:

Christian L. Campbell, Senior Vice President, General Counsel, Secretary, and Chief Franchise Policy Officer, YUM! Brands Inc.

Jane Elizabeth Curran, Executive Director, the Florida Bar Foundation.

M. Christine DeVita, President of The Wallace Foundation.

Terry M. Fraser, Principal, LarsonAllen LLP.

Robert E. Henley Jr., non-director member of the LSC Board's Finance Committee.

David Hoffman, a former Inspector General for the City of Chicago.

Allan Jenkins, Executive Director, The Opportunity Agenda.

The Rev. Pius Pietrzyk, O.P., member of the LSC Board.

Ronald M. Shaich, co-founder of Panera Bread Co.

Paul L. Snyder, retired Midwest area managing partner at KPMG.

Allan J. Tanenbaum, General Counsel and Managing Partner, Equicorp Partners.

Nikki L. Tinsley, a former Inspector General for the Environmental Protection Agency.

Douglas N. Varley, a member of the Washington office of Caplin & Drysdale.

Michele S. Warman, General Counsel and Secretary, The Andrew W. Mellon Foundation.

Message From The Inspector General

Improving Accountability



"I am committed to continuing to do all that we can to help improve and protect LSC's programs."

Congress enacted 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 in areas often vital to their personal and economic security.

At the Office of Inspector General (OIG) at LSC, much of our daily work involves audits, investigations, and program analysis—all designed to help improve or protect LSC's programs and activities. While maintaining the independence of the OIG, our staff of approximately 27 professionals works in close coordination with LSC's Board of Directors, its management, and staff to further the Corporation's mission.

As I enter my fourth year of serving as LSC's Inspector General, I am pleased to report that our office has continued to make substantial contributions in helping to improve and protect LSC's programs.

Throughout 2010 we focused our audit efforts on reviewing internal controls at LSC programs. Our audits identified more than \$1.2 million in questioned costs involving both grantee and LSC headquarters programs. The reports included one identifying substantial questioned costs directly associated with a grantee's executive director's activities, and one finding that an array of control deficiencies in a multi-million dollar LSC showcase grant program constituted a material weakness, potentially warranting suspension of the program. It is gratifying that in each case prompt steps were taken to address the problems and take corrective action. This is at the heart of the OIG's work: identifying areas of vulnerability or abuse and serving as a catalyst in prompting action to protect and improve the Corporation's programs.

The OIG is also responsible for overseeing the audit process for LSC's 136 grantees. This year we launched an initiative to enhance our review of the independent audits required annually of LSC grantees. A program of quality control reviews will provide broader coverage in the individual reviews and will ensure that all public accounting firms performing grantee audits are subject to

review on a four-year cycle.

The OIG conducted more than 40 investigations during the year. Indictments and convictions were obtained in a number of significant cases following OIG investigations: the former office manager/grants administrator of an LSC grantee and another employee were indicted on mail fraud and other charges for the theft of more than \$150,000 in grantee funds; the former financial chief of an LSC grantee was convicted, along with his accomplice (an outside contractor), of theft of over \$1.2 million in federal grant funds; and a grantee's former bookkeeper was convicted after embezzling more than \$188,000 in federal grant funds. Defendants sentenced in these and other cases arising out of OIG investigations received terms of imprisonment and were ordered to pay full restitution to the grantees involved.

We have also continued to place a high priority on prevention and deterrence. We employ a variety of outreach and educational initiatives, including a program of regular fraud awareness briefings and onsite vulnerability assessments for LSC grantees.

By continuing to press forward with these and similar activities, the OIG is helping to root out fraud, waste, and abuse in LSC programs and operations and to improve the efficiency and effectiveness of the federally funded legal services program. I am gratified at the contributions that we have made and I am committed to continuing to do all that we can to help improve and protect LSC's programs. I am particularly pleased to be able to work with LSC's new President, Jim Sandman, and with Chairman John Levi and the members of the Board of Directors in pursuing our common commitment to helping LSC achieve its goal of providing equal access to justice for low-income Americans.

Jeffrey E. Schanz
Inspector General

Legal Services Corporation

July 15, 2011

Financials

Financial Statements and Independent Auditor's Report For The Year Ended
September 30, 2010

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

Certified Public Accountants and Management, Systems, and Financial Consultants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the Legal Services Corporation ("LSC") as of September 30, 2010 and 2009, and the related statements of activities and cash flows 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 *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSC as of September 30, 2010 and 2009, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis on pages 17 to 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011 on our consideration of LSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Washington, DC
January 7, 2011

Thompson, Cobb, Bazilio & Associates, PC

*Financial Statements***Statement of Financial Position****September 30, 2010 and 2009**

ASSETS	2010	2009
Cash and cash equivalents	\$ 83,596,411	\$ 77,940,065
Accounts receivable	479,860	625,342
Prepaid expenses and deposits	380,544	178,663
Fixed assets, net	391,997	395,244
Total Assets	\$ 84,848,812	\$ 79,139,314
LIABILITIES		
Grants and contracts payable	\$ 69,431,311	\$ 68,335,697
Accounts payable	358,309	302,383
Accrued vacation and other liabilities	1,011,649	1,236,290
Deferred revenue	6,418,891	2,800,129
Total Liabilities	77,220,160	72,674,499
NET ASSETS		
Unrestricted net assets:		
Designated	553,445	835,863
Undesignated	6,683,210	5,233,709
Net investment in fixed assets	391,997	395,243
Total unrestricted net assets	7,628,652	6,464,815
Total liabilities and unrestricted net assets	\$ 84,848,812	\$ 79,139,314

*Financial Statements (cont.)***Statement of Activities****Year Ended September 30, 2010 and 2009**

SUPPORT AND REVENUE	2010	2009
Federal appropriations	\$ 420,000,000	\$ 390,000,000
Grant revenue	1,820,290	2,034,086
Interest	6,305	39,379
Other income	10,802	6,598
Change in deferred revenue	(3,619,052)	(1,370,641)
Total support and revenue	418,218,345	390,709,422
EXPENSES		
Program activities:		
Grants, contracts and reimbursable expenses	396,661,702	371,257,115
Supporting activities:		
Management and grants oversight	16,125,945	13,845,616
Office of Inspector General	3,739,699	3,270,879
Herbert S. Garten Loan Repayment Assistance Program	527,162	279,400
Total supporting activities	20,392,806	17,395,895
Total expenses	417,054,508	388,653,010
Change in net assets	1,163,837	2,056,412
Unrestricted net assets, beginning of year	6,464,815	4,408,403
Unrestricted net assets, end of year	\$ 7,628,652	\$ 6,464,815

*Financial Statements (cont.)***Statement of Cash Flows****Year Ended September 30, 2010 and 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	2010	2009
Change in net assets	\$ 1,163,837	\$ 2,056,412
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	312,261	215,810
Loss on disposal of assets	103	583
Decrease (increase) in accounts receivable	47,129	(31,106)
Decrease (increase) in LRAP receivable	98,354	(249,480)
(Increase) decrease in prepaid expenses and deposits	(201,882)	53,560
Increase in grants and contracts payable	1,095,614	6,822,430
Increase in accounts payable	55,926	76,049
(Decrease) increase in accrued vacation and other liabilities	(224,641)	270,493
Increase in deferred revenue	3,618,762	1,366,555
Net cash and cash equivalents provided by operating activities	5,965,463	10,581,306
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(309,117)	(93,347)
Net cash and cash equivalents used in investing activities	(309,117)	(93,347)
Net increase in cash and cash equivalents	5,656,346	10,487,959
Cash and cash equivalents, beginning of year	77,940,065	67,452,106
Cash and cash equivalents, end of year	\$ 83,596,411	\$ 77,940,065

Notes To Financial Statements September 30, 2010**NOTE 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.

Basis of Accounting

LSC’s financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America.

The federal appropriations include amounts received and expended in furtherance of LSC’s objectives.

LSC follows accounting standards established by the Financial Accounting Standards Board (FASB) which is the source of generally accepted accounting principles (GAAP) for not-for-profit entities. The financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, LSC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. LSC does not have temporarily or permanently net assets.

Estimates

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

Cash and Cash Equivalents

LSC considers all money market funds and instruments with a maturity date of less than 90 days to be cash equivalents. LSC’s cash accounts are subject to Federal Deposit Insurance Corporation (FDIC) limits. The FDIC temporarily increased the maximum limit from \$100,000 to \$250,000 through December 31, 2013. LSC has established target balances above \$250,000 and transfers the amounts on a daily basis into government backed securities accounts under a sweep arrangement.

Support and Revenue

The federal appropriations are reported as support and revenue in the period the public law makes them available. The appropriation remains available until expended. Unexpended grant funds are shown as deferred revenue and adjustments are made to the account Change in Deferred Revenue to recognize the annual adjustment.

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, 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.

Notes To Financial Statements (cont.) September 30, 2010**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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.

Property and Equipment

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

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.

Classification of Net Assets

Net assets related to Federal appropriations have been reported as either designated or undesignated. Designated net assets represent amounts that have been earmarked by the Board of Directors for continuing programs and administrative activities. Undesignated net assets represent appropriated federal carryover and other operating excess, which are available for future use at the discretion of the Board of Directors. Net assets invested in fixed assets represent investments in property, equipment and computer software, net of accumulated depreciation and amortization.

Concentration of Revenue

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

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit at financial institutions and undistributed appropriations, which constitute spending authority remaining available in LSC's account held by the U.S. Treasury. Cash and cash equivalents as of September 30, 2010 and 2009 consisted of the following:

	2010	2009
Cash in U.S. Treasury	\$ 46,139,618	\$ 41,663,198
Cash in financial institution	37,454,793	36,274,867
Petty cash	2,000	2,000
Total cash and cash equivalents	\$ 83,596,411	\$ 77,940,065

Notes To Financial Statements (cont.) September 30, 2010**NOTE 3 FIXED ASSETS**

Fixed assets as of September 30, 2010 and 2009 consisted of the following:

	2010	2009
Furniture and equipment	\$ 1,939,454	\$ 1,824,982
Software	406,050	341,201
Leasehold improvements	351,698	321,687
Subtotal	2,697,202	2,487,870
Less: accumulated depreciation and amortization	(2,305,205)	(2,092,626)
Fixed assets, net	\$ 391,997	\$ 395,244

NOTE 4 GRANT REVENUE

LSC was awarded a grant from the U.S. Court of Veterans Appeals for the purpose of furnishing legal assistance to veterans in non-criminal proceedings.

Additionally, LSC was awarded a grant from the State Justice Institute, a nonprofit organization established by federal law, for the purpose of expanding the number of LSC technology initiative grants.

Grant revenue for the years ended September 30, 2010 and 2009 consisted of the following:

	2010	2009
U.S. Court of Veterans Appeals grant	\$ 1,805,000	\$ 1,700,000
Veterans reimbursable expenses	15,290	4,086
State Justice Institute	-	330,000
Total grant revenue	\$ 1,820,290	\$ 2,034,086

NOTE 5 GRANT AND CONTRACT EXPENSES

Grant and contract expenses for the years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Basic Field Programs	\$ 394,582,437	\$ 365,745,172
U.S. Court of Veterans Appeals Funds	1,820,290	1,704,086
Technology Initiatives	300,000	3,705,628
Grants From Other Funds	71,349	283,734
Grant Recoveries	(112,374)	(181,505)
Total grant and contract expenses	\$ 396,661,702	\$ 371,257,115

Notes To Financial Statements (cont.) September 30, 2010**NOTE 6 MANAGEMENT AND GRANTS OVERSIGHT**

Management and grants oversight expenses for the years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Compensation and benefits	\$ 11,449,159	\$ 9,917,209
Temporary employee pay	142,208	67,549
Consulting	933,677	686,858
Travel and transportation	689,808	494,432
Communications	121,042	132,567
Occupancy cost	1,708,406	1,654,289
Printing and reproduction	91,249	50,659
Other operating expenses	674,582	625,185
Capital expenditures	269,743	61,435
Total	16,079,874	13,690,183
Depreciation and amortization	312,261	215,810
Loss on disposal of assets	103	583
Less: capitalized assets	(266,293)	(60,960)
Total management and grant oversight expenses	\$ 16,125,945	\$ 13,845,616

NOTE 7 HERBERT S. GARTEN LOAN REPAYMENT ASSISTANCE PROGRAM

LSC initiated the Herbert S. Garten Loan Repayment Assistance Program in 2006 and loans were provided up to \$5,000 annually for participating attorneys. In 2007, loans increased to \$5,600 annually. For the years ended September 30, 2010 and 2009, participating attorneys received loans totaling \$470,669 and \$569,023, respectively, which have been included in accounts receivable.

The loans forgiven in fiscal years 2010 and 2009 totaled \$527,162 and \$279,400, respectively. 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 and no interest on the loans has been accrued as management has deemed these amounts to be immaterial.

Notes To Financial Statements (cont.) September 30, 2010**NOTE 8 OFFICE OF INSPECTOR GENERAL**

LSC's Office of Inspector General expenses for the years ended September 30, 2010 and 2009 were as follows:

	2010	2009
Compensation and benefits	\$ 3,408,921	\$ 2,977,165
Temporary employee pay	-	9,531
Consulting	92,844	65,570
Travel and transportation	164,906	145,626
Communications	16,012	22,138
Printing and reproduction	2,963	3,109
Other operating expenses	54,053	47,740
Capital expenditures	42,825	32,387
Total	3,782,524	3,303,266
Less: capitalized assets	(42,825)	(32,387)
Total Office of Inspector General expenses	\$ 3,739,699	\$ 3,270,879

NOTE 9 RETIREMENT PLANS

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988, are participants in the Civil Service 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.

Notes To Financial Statements (cont.) September 30, 2010**NOTE 9 RETIREMENT PLANS (Continued)**

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, 2010 and 2009 were \$973,980 and \$858,469, 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.

NOTE 10 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 carry out 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 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:

September 30,	Amount
2011	1,710,000
2012	1,710,000
2013	1,140,000
Total	\$ 5,130,000

Rental expense for each of the years ended September 30, 2010 and 2009 was \$1,710,000. No amounts were due to or due from FoLSC as of September 30, 2010 and 2009.

Sublease

During fiscal year 2005, LSC entered into a five-year sublease to lease a portion of its space. The lease agreement provided for an annual base rent of \$53,415 with a 2% annual increase. The sublease expired during fiscal year 2010.

Total sublease income recognized in fiscal year 2010 was approximately \$4,824 and was reported as a reduction of rental expense in the accompanying financial statements.

Notes To Financial Statements (cont.) September 30, 2010**NOTE 11 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 auditors.

LSC receives substantially all of its revenue from direct federal government appropriations. Should a significant level of reduction occur in this revenue, LSC's programs and activities might be negatively affected.

Claims

LSC is defending three cases in litigation involving challenges to LSC regulations, two of which have been consolidated. In the consolidated cases, plaintiffs are seeking injunctive relief but no monetary damages, except for attorneys' fees. The third case (LASO) involves a claim for injunctive relief but no monetary damages except for costs. 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 fiscal year 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.

There is one further case, which was filed in December 2008 but which has never been served. In that case, plaintiff claims wrongful denial of legal representation by a LSC grantee. The suit appears to be entirely without merit. No outside counsel has been retained and no attorneys' fees or costs have been incurred.

LSC does not believe the result of these claims will have a material negative effect on its financial statements.

Reclassification of employees from exempt to non-exempt

Certain individuals may be misclassified as exempt from overtime and may be due wages for hours worked in excess of forty hours per week. Although none of these individuals has yet asserted a misclassification or failure to pay overtime claim against LSC, LSC has sought legal advice with respect to the potential liability, should any claim be made, strategy for resolving the matters, re-classifying these employees, and analysis of potential cost to resolve any overtime issues prior to claims being filed. LSC is in the process of estimating the time that it believes each individual may claim to have worked overtime based on observation and experience working with each of them. As no claims have been made, it is not certain at this time whether the employees will agree with LSC's time estimates. LSC believes it has sufficient funds available to make any payment without affecting current operations.

NOTE 12 TAX STATUS

Under Section 501(c)(3) of the Internal Revenue Code, LSC is exempt from the payment of taxes on income other than net unrelated business income. No provision for income taxes was required for the years ended September 30, 2010 and 2009 as LSC had no net unrelated business income.

In June 2006, FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, was issued. FASB ASC 740-10 clarifies the accounting and disclosure for uncertain tax positions, and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. During the year ended September 30, 2010, LSC adopted FASB ASC 740-10 and believes there is no impact on its financial statements.

LSC evaluates its uncertain tax positions using the provisions of FASB ASC 450, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimates and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. There were no liabilities for uncertain tax positions as of September 30, 2010 and 2009.

NOTE 13 SUBSEQUENT EVENTS

In preparing these financial statements, LSC has evaluated events and transactions for potential recognition or disclosure through January 7, 2011, the date the financial statements were issued.

Continuing Resolution

For fiscal year 2011, the House Appropriations Committee has proposed to increase LSC's funding to \$440 million and the Senate Appropriations Subcommittee has recommended an increase to \$430 million. The LSC Board had requested that Congress approve \$516.5 million for fiscal year 2011. Congress had not approved the fiscal year 2011 appropriation for LSC by October 1, 2010; therefore LSC began the new fiscal year operating at fiscal year 2010 funding levels, under a Continuing Resolution signed into law on December 22, 2010. The new continuing resolution will provide funding through March 4, 2011.

Other reports issued by the auditor are available online at:

<http://www.oig.lsc.gov/reports/corp/fy%202010%20LSC%20Corporate%20Audit.pdf>

Acknowledgements

Thank You

Where it was possible to provide photo credit for images used, we did so. Unfortunately, sometimes space in the page design—as with the cover, for instance—did not allow for it. Here, in alphabetical order, are those we wish to credit for the use of their art in this Annual Report:

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