

**REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE LSC AUDIT GUIDE**

**MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)**

YEAR ENDED DECEMBER 31, 2024

**BCM LLC
1930 Picarro Lane, I Liyang Village
P.O. Box 504053
Saipan, MP 96950**

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)

Financial Statements

Year Ended December 31, 2024

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**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)**

YEAR ENDED DECEMBER 31, 2024



BURGER · COMER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Micronesian Legal Services Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Micronesian Legal Services Corporation (MLSC) (Recipient No. 952000) (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Micronesian Legal Services Corporation as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Micronesian Legal Services Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

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Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Report on Summarized Comparative Information

We have previously audited the Micronesian Legal Services Corporation’s 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Support, Revenue and Expenses and Changes in Net Assets for LSC Funds and for Bank of America Settlement Funds for the year ended December 31, 2024 (pages 28 and 29) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2025, on our consideration of the Micronesian Legal Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Micronesian Legal Services Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Micronesian Legal Services Corporation's internal control over financial reporting and compliance.

Buyns Comer & Associates

Saipan, MP
November 4, 2025

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)

Statement of Financial Position
December 31, 2024
(With comparative totals as of December 31, 2023)

	<u>ASSETS</u>	<u>2024</u>	<u>2023</u>
Current assets:			
Cash and cash equivalents		\$ 137,980	480,534
Restricted cash (CTA)		34,559	3,771
Other receivables		42,753	253,301
Prepaid expenses		63,559	66,850
Total current assets		<u>278,851</u>	<u>804,456</u>
Other assets		29,654	54,586
Investments		1,108,501	868,758
Right of use asset		119,893	27,517
Property and equipment, net		<u>41,939</u>	<u>40,020</u>
		<u>\$ 1,578,838</u>	<u>1,795,337</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable		71,007	43,980
Accrued vacation leave		220,038	217,743
Client trust account (CTA)		34,559	3,771
Lease liability current		50,150	24,018
Other liabilities		248,529	367,805
Total current liabilities		<u>624,283</u>	<u>657,317</u>
Lease liability noncurrent		<u>70,532</u>	<u>4,525</u>
Total liabilities		694,815	661,842
Net assets:			
With donor restrictions		312,112	562,240
Without donor restrictions		<u>571,911</u>	<u>571,255</u>
Total net assets		<u>884,023</u>	<u>1,133,495</u>
		<u>\$ 1,578,838</u>	<u>1,795,337</u>

See accompanying notes to financial statements.

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)

Statement of Activities
Year ended December 31, 2024
(With comparative totals for the year ended December 31, 2023)

	Without Donor Restrictions	With Donor Restrictions		Totals	
		LSC	BOA	<u>2024</u>	<u>2023</u>
Operating revenues, gains, and other support:					
LSC grants	\$ -	2,668,955	-	2,668,955	2,771,912
Other grants	-	462	-	-	-
Contributions	756,291	-	-	756,291	724,071
Interest and dividends	-	-	29,053	29,053	22,732
In-kind contribution - donated rent	37,600	-	-	37,600	21,600
Miscellaneous income	69,362	-	-	69,362	44,112
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>2,959,042</u>	<u>(2,957,114)</u>	<u>(1,928)</u>	<u>-</u>	<u>-</u>
Total operating revenues, gains, and other support	<u>3,822,295</u>	<u>(287,697)</u>	<u>27,125</u>	<u>3,561,261</u>	<u>3,584,427</u>
Operating expenses:					
Program services	3,009,287	-	-	3,009,287	3,064,569
Management and general	<u>812,593</u>	<u>-</u>	<u>-</u>	<u>812,593</u>	<u>749,517</u>
Total operating expenses	<u>3,821,880</u>	<u>-</u>	<u>-</u>	<u>3,821,880</u>	<u>3,814,086</u>
Change in net assets from operations	415	(287,697)	27,125	(260,157)	(229,659)
Derivative income - sale of LSC funded asset	-	-	-	-	177,783
Nonoperating investment gain (loss)	<u>-</u>	<u>-</u>	<u>10,444</u>	<u>10,444</u>	<u>46,924</u>
Change in net assets	415	(287,697)	37,569	(249,713)	(4,952)
Net assets at beginning of year, as previously reported	571,255	287,697	274,543	1,133,495	1,139,473
Adjustment of beginning net assets, lease	<u>241</u>	<u>-</u>	<u>-</u>	<u>241</u>	<u>(1,026)</u>
Net assets at beginning of year, as adjusted	<u>571,496</u>	<u>287,697</u>	<u>274,543</u>	<u>1,133,736</u>	<u>1,138,447</u>
Net assets at end of year	<u>\$ 571,911</u>	<u>-</u>	<u>312,112</u>	<u>884,023</u>	<u>1,133,495</u>

See accompanying notes to financial statements.

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)

Statement of Functional Expenses
Year ended December 31, 2024
(With comparative totals for the year ended December 31, 2023)

	Program Services	Management and General	2024 Total	2023 Total
Salaries and wages:				
Attorneys	\$ 1,122,695	-	1,122,695	1,048,409
Administrative and others	249,647	475,369	725,016	675,747
Micronesian counselors	465,905	-	465,905	509,102
Employee benefits and payroll taxes	615,138	103,676	718,814	714,311
Office rentals and utilities	185,472	47,377	232,849	238,807
Other direct expenses	168,955	-	168,955	152,446
Communication	63,889	7,301	71,190	72,915
Miscellaneous expenses	-	68,115	68,115	6,194
Travel and meeting	5,277	55,747	61,024	67,978
Office supplies and expenses	37,002	9,881	46,883	41,984
Subscription	1,463	26,229	27,692	21,738
Depreciation	20,704	1,137	21,841	37,166
Contract services	1,679	13,220	14,899	165,743
Equipment rental and maintenance	8,797	1,021	9,818	7,965
Insurance expenses	25,034	3,244	28,278	31,344
Bank charges	30	276	306	637
In-kind expense - donated rent	37,600	-	37,600	21,600
Total expenses	\$ 3,009,287	812,593	3,821,880	3,814,086

See accompanying notes to financial statements.

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)

Statement of Cash Flows
Year Ended December 31, 2024
(With comparative totals for the year ended December 31, 2023)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets from operations	\$ (260,157)	(229,659)
Depreciation	21,840	37,166
(Increase) decrease in assets:		
Other receivables	210,548	(44,947)
Other asset	24,932	(54,586)
Prepaid expenses	3,291	(27,967)
Increase (decrease) in liabilities:		
Accounts payable	27,027	6,210
Accrued vacation leave	2,295	6,511
Client trust account	30,788	(1,206)
Other liabilities	<u>(119,276)</u>	<u>197,029</u>
Net cash provided by (used in) operating activities	<u>(58,708)</u>	<u>(111,449)</u>
Cash flows from investing activities:		
(Purchases) sales of investments	(239,743)	107,865
Purchase of property and equipment	(23,759)	(9,191)
Nonoperating investment gains and derivative income	10,444	-
Proceeds from disposition of property and equipment	<u>-</u>	<u>359,565</u>
Net cash provided by (used in) investing activities	<u>(253,058)</u>	<u>458,239</u>
Net change in cash and cash equivalents and restricted cash	(311,766)	346,790
Balances at beginning of year:		
Restricted cash	3,771	4,977
Cash	<u>480,534</u>	<u>85,614</u>
	<u>484,305</u>	<u>90,591</u>
Balances at end of year:		
Restricted cash	34,559	3,771
Cash	<u>137,980</u>	<u>480,534</u>
Cash and cash equivalents and restricted cash at end of year	<u>\$ 172,539</u>	<u>484,305</u>
Supplemental disclosure of noncash financing activities:		
Recognition of contributed rent:		
Noncash office rentals and utilities expense	37,600	21,600
Noncash contribution of office rentals and utilities	<u>(37,600)</u>	<u>(21,600)</u>
	<u>\$ -</u>	<u>-</u>

See accompanying notes to financial statements.

MICRONESIAN LEGAL SERVICES CORPORATION

(Recipient No. 952000)

(A Nonprofit Corporation)

Notes to Financial Statements

December 31, 2024

(with comparative figures for 2023)

(1) Organization and Purpose

Micronesian Legal Services Corporation (MLSC) is a nonprofit corporation formed in 1972, organized for the purpose of providing legal assistance in non-criminal proceedings or other matters to indigent persons in the Commonwealth of the Northern Mariana Islands (CNMI), Territory of Guam, Republic of the Marshall Islands, Republic of Palau, and the Federated States of Micronesia (FSM). MLSC is primarily funded through grants from Legal Services Corporation (LSC), a nonprofit corporation established by the U.S. Congress to administer the federal government's legal assistance programs.

(2) Summary of Significant Accounting Policies

This summary of significant accounting policies of MLSC is presented to assist in understanding MLSC's financial statements. The financial statements and notes are representations of MLSC's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, establishes broad standards for reporting information in financial statements issued by not-for-profit organizations and requires these financial statements to focus on MLSC as a whole. Amounts related to an organization's financial position and activities are to be reported in two classes of net assets: restricted and unrestricted.

These financial statements must classify an organization's assets, liabilities, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The two classes of net assets are now classified as one of the following types:

- Net assets without donor restriction- Net assets that are not subject to donor-imposed stipulations or whose restrictions are met in the year received.
- Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MLSC and/or the passage of time. When a restriction expires or is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

MLSC has determined that all assets, revenues, expenses, gains and losses resulting from local government contributions and grants/donations are without donor restrictions and with donor restrictions, respectively.

MICRONESIAN LEGAL SERVICES CORPORATION

(Recipient No. 952000)

(A Nonprofit Corporation)

Notes to Financial Statements

December 31, 2024

(with comparative figures for 2023)

(2) Summary of Significant Accounting Policies, Continued

Net Assets

MLSC reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. For the years ended December 31, 2024 and 2023, net assets released from restrictions due to satisfaction of imposed restrictions amounted to \$2,957,114 and \$3,033,340, respectively, for LSC grants, and \$1,928 and \$- 0 -, respectively, for expenditures funded through non-federal grants.

Grant Support

LSC's Basic Field Grants are non-exchange/contributions with conditions. LSC awards Basic Field Grant funds on a calendar year basis and typically sends notification of funding to MLSC in December of the year before the grant award period. All unexpended LSC Basic Field grant amounts are reflected in the MLSC's liability account as refundable advances whether LSC approved the amounts to carry over, or the amounts do not meet the threshold for approval. In accordance with the terms of its grant from LSC, MLSC may use unexpended funds in future periods, provided expenses incurred are in compliance with the specified terms of the LSC grant. LSC may, at its discretion, request reimbursement for expenses or the return of unused funds, or both, as a result of non-compliance by MLSC with the terms of the LSC grant. In addition, if MLSC terminates its LSC grant activities, all unexpended funds are to be returned to LSC. Budget allocations of grant support are subject to continuous review by management and may be revised at any time.

LSC's *Compliance Supplement for Audits of LSC Recipients* (revised October 2023), Section 1614, requires LSC recipients to devote at least twelve and one-half percent (12.5%) of the recipient's annualized Basic Field General award to encouraging the involvement of private attorneys in the delivery of legal assistance to eligible clients. These expenditures do not have to be made solely with Basic Field General Award Funds. For the years ended December 31, 2024 and 2023, MLSC received waivers of this requirement from LSC and thus, no activity is reflected for Private Attorney Involvement (PAI) in the accompanying financial statements.

MLSC received donations from Bank of America (BOA) through the CNMI Bar Association for foreclosure prevention and community redevelopment legal assistance. BOA funds with donor restrictions amounted to \$311,647 at December 31, 2024 and \$274,543 at December 31, 2023. The BOA funds are included in "Investments" in the accompanying statement of financial position.

MICRONESIAN LEGAL SERVICES CORPORATION

(Recipient No. 952000)

(A Nonprofit Corporation)

Notes to Financial Statements

December 31, 2024

(with comparative figures for 2023)

(2) Summary of Significant Accounting Policies, Continued

Contributions

Contributions represent local funds and contributed rental space from the various governmental entities within MLSC's jurisdiction. Appropriated funding is recognized as support when received with the only limits on its use being the broad limits resulting from the nature of MLSC, the environment in which it operates, and the purposes specified in its Articles of Incorporation and Bylaws and limits resulting from contractual agreements entered into by MLSC in the course of its business. Contributed rental space is recorded at estimated fair market value as both revenue and expense.

Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, MLSC considers cash and cash equivalents to be cash on hand and cash on deposit in banks, and highly liquid investments with initial or remaining maturities of ninety days or less. At December 31, 2024, total cash and cash equivalents were \$172,539. The corresponding bank balance was \$188,425 in 2024, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) coverage.

At December 31, 2024, cash and cash equivalents included the following:

Deposits with federally insured banks	\$ <u>188,425</u>
	<u>188,425</u>

As of December 31, 2024 and 2023, custodian money market sweep deposits of \$- 0 - and \$3,771, respectively, are held and administered by an investment manager subject to Securities Investor Protection Corporation (SIPC) insurance up to \$250,000 with coverage in excess of SIPC provided by a supplemental insurance policy through certain underwriters with a per client aggregate limit of \$1.9 million. MLSC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC and SIPC coverage and deposits in financial institutions not subject to FDIC and SIPC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the MLSC's financial statements for the year ended December 31, 2023, from which the summarized information was derived.

MICRONESIAN LEGAL SERVICES CORPORATION

(Recipient No. 952000)

(A Nonprofit Corporation)

Notes to Financial Statements

December 31, 2024

(with comparative figures for 2023)

(2) Summary of Significant Accounting Policies, Continued

Leases

MLSC leases certain office space. The determination of whether an arrangement is a lease is made at the lease's inception. MLSC adopted ASC 842 effective January 1, 2022. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the balance sheets.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. MLSC uses the implicit rate when it is readily determinable. Since most of MLSC's leases do not provide an implicit rate, management uses MLSC's incremental borrowing rate based on the information available at lease commencement to determine the present value of lease payments. Operating lease ROU assets also include any lease payments made and exclude any lease incentives. Lease expense for lease payments is recognized straight-line over the lease term. MLSC's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise the option.

All contracts are assessed to determine if they are lease or non-lease contracts with a lease component. Allocation of contract price between the lease component and non-lease components in a non-lease contract with lease components will be conducted. Leases will then be classified into operating, finance, or short-term leases.

Leases identified as operating and finance will recognize a right-of-use asset and a liability in the balance sheet. All leases with less than twelve months are classified as short-term leases and will be recognized as a singular lease expense over the lease term. They are not recognized in the balance sheet of MLSC. The lease discount rate stated in the lease contract will be used to determine the present value and amortization of the lease liability. If there is no explicit discount rate available, the incremental borrowing rate of MLSC at the start of the lease term will be used. MLSC has elected not to recognize right-of-use assets and lease liabilities for short-term leases. MLSC recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

MICRONESIAN LEGAL SERVICES CORPORATION
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Notes to Financial Statements
December 31, 2024
(with comparative figures for 2023)

(2) Summary of Significant Accounting Policies, Continued

Investments

Marketable securities held for investment purposes are stated at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined. Fixed income securities are reported at amortized cost with discounts or premiums amortized using the effective interest method subject to adjustment for market declines judged to be other than temporary.

At December 31, 2024 and 2023, MLSC values its investments at fair value as follows:

	<u>2024</u>	<u>2023</u>
Equities:		
U.S. equities	\$ 120,242	97,673
Non-U.S. equities	44,962	43,989
Non-classified	<u>127</u>	<u>-</u>
	<u>165,331</u>	<u>141,662</u>
Fixed income securities:		
Mortgage and asset backed securities	432,684	271,034
Government bonds	259,998	259,395
Corporate bonds	<u>250,488</u>	<u>196,667</u>
	<u>943,170</u>	<u>727,096</u>
Total investments	<u>\$ 1,108,501</u>	<u>868,758</u>

MLSC categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. MLSC has the following fair value measurements:

MICRONESIAN LEGAL SERVICES CORPORATION
(Recipient No. 952000)
(A Nonprofit Corporation)
Notes to Financial Statements
December 31, 2024
(with comparative figures for 2023)

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

Investments by fair value level	Fair Value Measurement Using			
	2024	Level 1	Level 2	Level 3
Debt securities				
Mortgage and asset backed securities	\$ 432,684	-	432,684	-
Government bonds	259,998	259,998	-	-
Corporate bonds	250,488	-	250,488	-
Total debt securities	<u>943,170</u>	<u>259,998</u>	<u>683,172</u>	<u>-</u>
Equity securities				
U.S. equities	120,242	97,673	-	-
Non-U.S. equities	44,962	43,989	-	-
Non-classified	127	-	-	-
Total equity securities	<u>165,331</u>	<u>141,662</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 1,108,501</u>	<u>401,660</u>	<u>683,172</u>	<u>-</u>

Investments by fair value level	Fair Value Measurement Using			
	2023	Level 1	Level 2	Level 3
Debt securities				
Mortgage and asset backed securities	\$ 271,034	-	271,034	-
Government bonds	259,395	259,395	-	-
Corporate bonds	196,667	-	196,667	-
Total debt securities	<u>727,096</u>	<u>259,395</u>	<u>467,701</u>	<u>-</u>
Equity securities				
U.S. equities	97,673	97,673	-	-
Non-U.S. equities	43,989	43,989	-	-
Total equity securities	<u>141,662</u>	<u>141,662</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 868,758</u>	<u>401,057</u>	<u>467,701</u>	<u>-</u>

Investments: MLSC's investments in Exchange-Traded Products (ETPs), which include government bonds, corporate bonds, and mortgage-backed securities, are classified as Available-for-Sale (AFS) securities. These investments are recorded at fair value on the statement of financial position.

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(2) Summary of Significant Accounting Policies, Continued

Investments, continued

Unrealized Gains and Losses: Unrealized gains and losses on AFS investments are reported in the statement of activities as changes in net assets with donor restrictions as they were originally funded by BOA fund.

Fair Value Measurement: The fair value of ETP investments is determined based on quoted market prices in active markets for identical assets when available. In the absence of quoted market prices, MLSC utilizes other valuation techniques that incorporate observable market data.

Realized Gains and Losses: Realized gains and losses, which are determined using the specific identification method, are recognized in the statement of activities when the securities are sold or otherwise disposed of, based on the difference between the proceeds received and the carrying amount of the securities.

Interest and Dividend Income: Interest and dividend income from these investments is recognized as revenue when earned, and reported in the statement of activities as increases in net assets with donor restrictions as they were income from BOA investment fund.

Impairment: MLSC reviews its AFS investments for any declines in fair value that may be considered other-than-temporary. If a decline is deemed to be other-than-temporary, MLSC recognizes an impairment loss in the statement of activities as a reclassification adjustment out of other comprehensive income.

The investments held and administered by the investment manager are subject to SIPC coverage of up to \$500,000 (inclusive of the \$250,000 cash balance protection coverage) and supplemental insurance for amounts in excess of SIPC coverage through certain underwriters, subject to an aggregate firm-wide cap of \$1 billion with no per client sublimit.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, MLSC will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

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(2) Summary of Significant Accounting Policies, Continued

Settlement Receivable

MLSC was awarded attorney fees of \$100,608 from the CNMI Commonwealth Utilities Corporation (CUC) in October 1994. Based on an agreement with CUC, MLSC's utility expenses in the CNMI are offset against the receivable. Additionally, MLSC is owed interest on the receivable at a rate of 6.06% per annum. MLSC has determined that the collectability of the settlement receivable and accrued interest is in doubt.

In 2022, MLSC offset \$6,988 of utility expenses with the settlement receivable. At December 31, 2023 and 2024, the settlement receivable balance is \$669. As such, MLSC has recognized an allowance for settlement receivable of \$669. Given the inability to determine when the settlement receivable will be realized, management has elected not to record the amount in the statement of financial position. MLSC only recognizes interest income related to the settlement receivable in an amount equal to utility expense; however, management did not consider this amount sufficiently material to record during the year ended December 31, 2024.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience. Bad debts are written-off against the allowance based on the specific identification method.

Current Expected Credit Loss (CECL)

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update, which became effective for most entities, including nonprofit organizations on January 1, 2023, introduces the Current Expected Credit Loss (CECL) model. The CECL model requires organizations to estimate credit losses over the lifetime of financial assets, incorporating historical experience, current conditions, and reasonable and supportable forecasts. Management concluded that the adoption of ASU 2016-13 did not have a material impact on the MLSC's financial statements.

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(2) Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquired with LSC funds are considered to be owned by MLSC while used in the program or in future authorized programs. However, LSC has a reversionary interest in these assets and has the right to determine the use of any proceeds from the sale of assets purchased with its funds.

Effective January 1, 2016, MLSC capitalizes all expenditures in excess of \$500 for property and equipment. Property and equipment are stated at cost. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Office furniture, fixtures and equipment	3 – 6 years
Building improvements	3 years
Buildings	20 years

Impairment of Long-Lived Assets

In accordance with Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, MLSC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset exceeds its fair value.

For the year ended December 31, 2024, management has reviewed MLSC's long-lived assets and has determined that no events or changes in circumstances occurred that would indicate the carrying amount of these assets may not be recoverable. Accordingly, no impairment loss has been recognized in the accompanying financial statements.

Micronesian Governments – Gross Receipts and Income Taxes

MLSC is exempt from the gross receipts and income taxes of the various Micronesian governments under the former Trust Territory Section 1(h) of Public Law 4C-2, as amended, and from the Northern Marianas Territorial Income Tax under the provisions of the Internal Revenue Code Section 501(c)(3). In the Territory of Guam, MLSC was required to complete Form 1023 Application for Recognition for Exemption. Therefore, no provision has been made for gross receipts or income taxes in the accompanying financial statements.

For CNMI income tax purposes, a tax year generally remains open to assessment and collection for three years after the later of the due date for filing a tax return or the date on which the taxpayer files its return.

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(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. Employees may accumulate up to 300 hours of annual leave with additional hours of leave forfeited. The accrual included in the financial statements as of December 31, 2024 is \$220,038.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Cost

MLSC's policy is to expense advertising costs when incurred. For the years ended December 31, 2024 and 2023, MLSC did not incur any advertising expenses.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration MLSC receives or expects to receive.

The FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* in June 2018 to clarify how not-for-profit entities should account for grants and similar contracts with resource providers, and determining whether a contribution is conditional. ASU 2014-09 eliminated certain limited exchange transaction guidance that was previously contained in Subtopic 958-605. Under ASU 2018-08, a transfer of assets that is a conditional contribution shall be accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the donor.

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(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition, continued

MLSC receives grants from federal agencies for program and supporting services. These grants are generally on a cost reimbursement basis. Revenue from grants is deemed earned and recognized in the statement of activities when expenditures are made for the purposes specified in the approved grant budget.

Significant Judgments

There are no significant judgments involved in determining the amount or timing of revenue.

There are no returns, refunds, or similar obligations. No judgment is necessary to make any determinations regarding these items.

Performance Obligations

MLSC records grant revenue and contributions as refundable advances and then recognizes revenue as it satisfies its obligation by providing legal services for the applicable clients or spends the funds for allowable activities.

Basis of Accounting

The financial statements of MLSC for the years ended December 31, 2024 and 2023 have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which requires the use of management estimates. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

(3) Liquidity and Availability of Assets

Accounting Standards Update ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* was applied to the financial statements in accordance with the transition guidance prescribed in the ASU, with enhanced disclosures about:

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(3) Liquidity and Availability of Assets, continued

- The amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- The composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- The qualitative information that communicates how the MLSC manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.
- The quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of MLSC's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- The amount of expenses by both their natural classification and their functional classification.
- The method(s) used to allocate costs among program and support functions.

MLSC has \$215,292 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$172,539 and other receivables of \$42,753. None of those financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The accounts receivable are subject to implied time restrictions but are expected to be collected within one year.

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(4) Summary of Funding

A summary of funding for the program year ended December 31, 2024 is as follows:

	<u>2024</u>	<u>2023</u>
Grantor:		
Legal Services Corporation:		
Annual grant and derivative income	\$ <u>2,669,417</u>	<u>2,949,695</u>
Silicon Valley Community Foundation	\$ <u>68,173</u>	<u>8,297</u>
BOA funding	\$ <u>2,393</u>	<u>175,000</u>
Homeland Security and Emergency Management Agency	\$ <u>-</u>	<u>13,574</u>
Local government contributions:		
CNMI donations	\$ 57,251	-
Chuuk	-	25,000
Pohnpei State	144,000	60,000
Republic of Palau	125,000	135,416
Majuro Atoll	124,000	115,045
Yap State	41,275	41,231
Ebeye	-	8,955
CNMI, Rota	-	37,844
FSM	150,000	250,000
Kosrae	10,000	-
Guam Judiciary	105,551	50,580
In-kind contribution - donated rent	<u>37,600</u>	<u>21,600</u>
	\$ <u>794,677</u>	<u>745,671</u>

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(5) Property and Equipment

Summarized below is MLSC's investment in its property and equipment as of December 31, 2024 and 2023:

LSC-Funded

	<u>Balance at</u> 1/01/24	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at</u> 12/31/24
Office furniture, fixtures and equipment	\$ 55,472	-	-	55,472
Building	-	-	-	-
Less: Accumulated depreciation	<u>(55,472)</u>	<u>-</u>	<u>-</u>	<u>(55,472)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Non-LSC-Funded:

Office furniture, fixtures and equipment	\$ 99,643	22,859	-	122,502
Building improvements	<u>92,803</u>	<u>900</u>	<u>-</u>	<u>93,703</u>
	192,446	23,759	-	216,205
Less: Accumulated depreciation	<u>(152,426)</u>	<u>(21,840)</u>	<u>-</u>	<u>(174,266)</u>
	<u>40,020</u>	<u>1,919</u>	<u>-</u>	<u>41,939</u>
Total property and equipment	<u>\$ 40,020</u>	<u>1,919</u>	<u>-</u>	<u>41,939</u>

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(5) Property and Equipment, continued

LSC-Funded

	<u>Balance at</u> 1/01/23	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at</u> 12/31/23
Office furniture, fixtures and equipment	\$ 55,472	-	-	55,472
Building	239,000	-	(239,000)	-
Less: Accumulated depreciation	<u>(100,739)</u>	<u>(11,950)</u>	<u>57,217</u>	<u>(55,472)</u>
	<u>193,733</u>	<u>(11,950)</u>	<u>(181,783)</u>	<u>-</u>

Non-LSC-Funded:

Office furniture, fixtures and equipment	\$ 88,564	11,079	-	99,643
Building improvements	89,257	3,546	-	92,803
Less: Accumulated depreciation	<u>(121,777)</u>	<u>(25,215)</u>	<u>(5,434)</u>	<u>(152,426)</u>
	<u>56,044</u>	<u>(10,590)</u>	<u>(5,434)</u>	<u>40,020</u>
Total property and equipment	<u>\$ 249,777</u>	<u>(22,540)</u>	<u>(187,217)</u>	<u>40,020</u>

MLSC purchased fixed assets using grant funds provided by the Legal Services Corporation (LSC). These fixed assets are restricted for use in accordance with the terms and conditions of the LSC grant agreement.

The assets include office furniture, fixtures and equipment, which are being utilized exclusively for the purpose of providing legal services to target population as specified in the LSC grant agreement.

Per the requirements of the LSC grant, these assets may not be used for any purpose outside the scope of the grant's objectives without prior approval from LSC. Additionally, MLSC is obligated to maintain these assets in good working condition and to ensure their continued use for the duration of their useful life, as defined by the organization's accounting policies.

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(5) Property and Equipment, continued

MLSC recognizes these assets on the balance sheet under "Property and Equipment" and depreciates them over their estimated useful lives in accordance with generally accepted accounting principles (GAAP). The carrying value of these restricted fixed assets as of December 31, 2024 is \$0.

(6) Leases

MLSC utilizes office facilities in each of the political jurisdictions in Micronesia. Facility rents have been contributed on the islands of Pohnpei State, Majuro Atoll in the Republic of the Marshall Islands and Yap State. Commercial office lease agreements exist for our offices on Ebeye, Kosrae, Chuuk, Palau, Guam, Tinian, and Saipan. MLSC has an MOU with the CNMI Superior Court for office space in the Courthouse on Rota. The leases have remaining lease terms of 1 to 5 years, with expiration dates ranging from 2024 through 2028.

The lease discount rate was based on the US treasury's one-year interest rate of 4.5%.

There were no short-term leases, excluding leases with one month or less lease terms, for the years ended December 31, 2024 and 2023.

The following summarizes lease expenses for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Operating lease cost	<u>\$ 93,126</u>	<u>66,600</u>

Information related to right-of-use assets and lease liabilities follows:

	<u>2024</u>	<u>2023</u>
Right of use asset		
Operating right of use asset	<u>\$ 119,893</u>	<u>27,517</u>
Lease liabilities		
Operating lease liability- current	\$ 50,150	24,018
Operating lease liability - noncurrent	<u>70,532</u>	<u>4,525</u>
Total Operating lease liabilities	<u>\$ 120,682</u>	<u>28,543</u>

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(6) Lease, continued

The difference between lease assets and lease liabilities are the prior year lease expense adjustment, which is adjusted to the beginning net assets.

Supplemental information related to MLSC's leases follows:

	2024	2023
Cash paid for the amounts included in the measurement of lease liabilities		
Operating cash flows from operating lease	\$ 93,127	66,600
Weighted average remaining lease terms - operating	2.56 years	1.32 years
Weighted average discount rate - operating	4.5%	4.5%

Future payment commitment:

	Year	Payment	Interest	Principal
	2025	\$ 54,167	4,017	50,150
	2026	44,010	2,163	41,847
	2027	22,760	542	22,218
	2028	6,601	134	6,467
		\$ 127,538	6,856	120,682

(7) Commitments and contingencies

There are several contingencies in 2024.

1. A former employee filed a complaint against MLSC for discrimination. The Board of Directors has reviewed this and has not set aside any funds for this. MLSC has reported this to the insurance carrier.

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(7) Commitments and contingencies, continued

2. MLSC has been handling a case in Chuuk office. The case involves a Co-op that was established in the early 1970s, but later went out of business. MLSC staff has been appointed by the Court as receiver to distribute dividends to the shareholders. A former employee mismanaged the bank account where the dividends were held, including writing checks that were returned for insufficient funds. Our Board has set aside \$25,000 for possible liability. This matter has been reported to our insurance carrier, and is still being investigated.
3. In January 2024, MLSC discovered that an employee had taken, and later returned, \$300 in petty cash. The matter was reported to the Legal Services Corporation Office of Inspector General (LSC OIG) in accordance with grant requirements. The employee is no longer employed by MLSC, and management considers this matter resolved.
4. In May 2024, MLSC discovered a loss of \$400 in petty cash at a different regional office. This incident was also reported to the LSC OIG. Local police were asked to investigate the theft; however, neither MLSC nor the police were able to make a final determination as to what occurred or who was responsible. The cleaning crew's contract was subsequently terminated due to related suspicions, though no conclusive findings were made.

There are no other lawsuits to be disclosed. While the outcome of these matters cannot be predicted with certainty, management believes that the ultimate resolution of these matters will not have a material adverse effect on the MLSC's financial position, results of operations, or cash flows. MLSC is a nonprofit organization composed mostly of attorneys and has determined that there are no significant legal proceedings that require a liability to be recorded in the financial statements as of December 31, 2024.

Government Grants

MLSC receives a substantial portion of its funding from Legal Service Corporation, which are subject to various rules, regulations, and administrative requirements. The disbursement of funds received under these grants generally requires compliance with the terms and conditions specified by the grantor agencies and is subject to audit by them. Such audits could result in the disallowance of certain expenditures, which may require MLSC to return funds to the grantor agencies. In management's opinion, any such disallowance would not have a material adverse effect on the financial position, results of operations, or cash flows of MLSC.

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(8) Functional expenses

For the year ended December 31, 2024, MLSC classified its expenses by both their natural and functional categories in the statement of functional expenses.

All expenses related to the MLSC central office have been reclassified as indirect costs of the area offices, now classified as administrative expenses. The distribution of these costs among the area offices was based on the poverty population ratio, ensuring a fair allocation of resources according to the needs of each office.

When allocating these administrative expenses to the Legal Services Corporation (LSC) grant and other funding sources, MLSC used the indirect cost rate. This allocation method ensures that the administrative costs are proportionately shared between the LSC grant and other funding, reflecting the benefits received from MLSC's central operations.

The table below summarizes the natural classification and functional allocation of MLSC's significant expense accounts for the year ended December 31, 2024:

<u>Expense Category</u>	<u>Program Services</u>	<u>Management And General (Indirect/Admin)</u>	<u>Total Expenses</u>
Salaries and Wages	\$1,838,247	\$475,369	\$2,313,616
Employee Benefits and Payroll Taxes	\$615,138	\$103,676	\$718,814
Office Rental and Utilities	\$185,472	\$47,377	\$232,849

This methodology aligns with generally accepted accounting principles (GAAP) and ensures transparency in the allocation of both programmatic and administrative expenses across MLSC's operations.

(9) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

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(10) Date of management's review

In preparing the accompanying financial statements and related notes, management has evaluated subsequent events through November 4, 2025, the date the financial statements were available to be issued.

In August 2025, MLSC hired a new Chief Financial Officer, replacing the former CFO. The new CFO previously served within the organization and was rehired to the position.

Management has also noted that funding allocations from the Legal Services Corporation (LSC) for fiscal year 2026 have not yet been finalized. While there is ongoing discussion and uncertainty regarding potential reductions in LSC appropriations, no definitive information regarding such funding changes was available as of the date the financial statements were issued.

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Supplementary Schedule of Support, Revenue and Expenses and Changes in Net Assets for LSC Funds
Year ended December 31, 2024

(With comparative totals for the year ended December 31, 2023)

	Prior-Year Excess Fund Balance	Excess Fund Balance (GU)	Basic Field Grant-MP	Basic Field Grant-GU	LSC Mawar Disaster Grant	2024	2023
Support and revenue							
Grant Revenue	\$ 196,242	-	2,189,788	436,644	42,523	2,865,197	2,760,616
Gain on Sale (Guam Building)	91,455	-	-	-	-	91,455	-
Other LSC Income- Excess from DP	-	-	463	-	-	463	-
Total support and revenue	287,697	-	2,190,251	436,644	42,523	2,957,114	2,760,616
Personnel expenses							
Employee benefits and payroll taxes	166,366	-	299,907	46,953	6,385	519,611	500,059
Salaries and wages:							
Administrative and others	12,948	-	219,174	18,463	3,178	253,763	492,569
Micronesians counselors	-	-	391,589	75,114	5,143	471,847	455,729
Attorneys	4,157	-	772,069	170,797	24,049	971,073	845,973
Total personnel expenses	183,470	-	1,682,739	311,327	38,756	2,216,293	2,294,330
Other expenses							
Indirect costs	25,297	-	486,917	124,272	1,679	638,165	-
Office rental and utilities	26,772	-	121,380	41,627	-	189,779	171,364
Other direct expenses	28,986	-	84,371	-	-	113,357	13,926
Contract services	-	-	-	-	-	-	50,663
Communication	23,173	-	59,693	4,196	-	87,062	68,534
Depreciation	-	-	-	-	-	-	145,584
Repair	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	12,843
Office supplies and expenses	-	-	-	-	2,087	2,087	1,368
Equipment rental and maintenance	-	-	-	-	-	-	2,004
Total other expenses	104,227	-	752,361	170,095	3,766	1,030,450	466,286
Total expenses	287,697	-	2,435,100	481,422	42,523	3,246,743	2,760,616
Support and revenue over/(under) expenses	-	-	(244,849)	(44,778)	-	(289,629)	-
Other changes							
Transfer to disaster grant	-	-	-	-	-	-	-
Transfer of proceeds from sale of property	-	-	-	-	-	-	196,342
Net other changes	-	-	-	-	-	-	196,342
Total other changes	-	-	(244,849)	(44,778)	-	(289,629)	-
Property net assets							
Beginning of year	-	-	-	-	-	-	-
End of year	-	-	-	-	-	-	-
Refundable advances							
Beginning of year	287,697	-	-	-	-	-	-
End of year	<u>\$ (1,930)</u>	-	-	-	-	-	-

See independent auditor's report.

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Supplementary Schedule of Support, Revenue and Expenses and Changes in Net Assets
for Bank of America Settlement Funds
Year ended December 31, 2024
(With comparative totals for the year ended December 31, 2023)

	<u>2024</u>	<u>2023</u>
Support and revenue:		
Interest and dividends	\$ <u>29,053</u>	<u>22,732</u>
Total support and revenue	<u>29,053</u>	<u>22,732</u>
Personnel expenses:		
Salaries and wages:		
Attorneys	-	33,717
Counselors	-	43,466
Administrative and others	1,216	31,759
Other direct costs	695	29,430
Employee benefits	<u>17</u>	<u>36,628</u>
Total expenses	<u>1,928</u>	<u>175,000</u>
Change in net assets from operations	27,125	(152,268)
Nonoperating investment gain	<u>10,444</u>	<u>46,924</u>
Total change in net assets	37,569	(105,344)
Net assets at beginning of year	<u>274,543</u>	<u>379,887</u>
Net assets at end of year	<u>\$ 312,112</u>	<u>274,543</u>

See independent auditor's report

**INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

**MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)**

YEAR ENDED DECEMBER 31, 2024



**INDEPENDENT AUDITOR’S 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 Board of Directors
Micronesian Legal Services Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Micronesian Legal Services Corporation (MLSC) (Recipient No. 952000) (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2025.

Report on Internal Control over Financial Reporting

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

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

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Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items Finding 2024-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

MLSC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on MLSC's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. MLSC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Bauger Comer & Associates

Saipan, MP
November 4, 2025



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE
UNIFORM GUIDANCE**

Board of Directors
Micronesia Legal Services Corporation

Report on Compliance for LSC Funds

Opinion on Each Major Federal Program

We have audited the Micronesia Legal Services Corporation (MLSC’s) compliance with the types of compliance requirements described in the *LSC Compliance Supplement for Audits of LSC Recipients* that could have a direct and material effect on MLSC’s sole major federal program for the year ended December 31, 2024. MLSC’s sole major program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, MLSC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 09.952000 Basic Field Grant for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the compliance requirements described in the *LSC Compliance Supplement for Audits of LSC Recipients* and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Micronesia Legal Services Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Micronesia Legal Services Corporation’s compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Micronesian Legal Services Corporation's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Micronesian Legal Services Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Micronesian Legal Services Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Micronesian Legal Services Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Micronesian Legal Services Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Micronesian Legal Services Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items Finding 2024-002, 2024-003, 2024-004, 2024-005, 2024-006, 2024-007, 2024-008, 2024-009, 2024-0010, 2024-0011.

Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on MLSC's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. MLSC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in compliance described in the accompanying schedule of findings and questioned costs as items 2024-002, 2024-003, 2024-004, 2024-005, 2024-0011 also represents a significant deficiency in internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on MLSC's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. MLSC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of MLSC as of and for the year ended December 31, 2024, and have issued our report thereon dated November 4, 2025, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Buyni Comer & Associates

Saipan, MP
November 4, 2025

MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A Nonprofit Corporation)

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2024

<u>Federal Grantor/ Pass- Through Grantor's Program Title</u>	<u>AL Number LSC Code and Recipient Number</u>	<u>Amounts Passed Through to Subrecipients</u>	<u>Expenses</u>
<u>Legal Services Corporation</u>			
Direct Program:			
Basic Field Grant	09.952000	\$ -	2,626,432
Disaster Grant		-	<u>42,523</u>
Total Expenditures of Federal Awards		<u>\$ -</u>	<u>2,668,955</u>

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of MLSC under programs of the federal government for the year ended December 31, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MLSC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of MLSC.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C—INDIRECT COST RATE

MLSC did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2024

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)?

yes no

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued

Federal Awards

Identification of major programs:

AL Number LSC Code and Recipient Number	Description	Federal Expenditures
09.952000	Basic Field Grant Disaster Grant	\$ 2,626,432 <u>42,523</u>

Total Federal Expenditures-Major Program \$ 2,668,955

Percentage of total federal awards tested 100%

Dollar threshold used to distinguish between
Type A and Type B programs \$ 750,000

Auditee qualified as low-risk auditee yes no

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

SECTION II – Findings relating to the Financial Statements which are required to be reported in accordance with *Government Auditing Standards*

Finding 2024-001 Financial Management Tasks

Finding Type: Significant Deficiency in Internal Controls

Criteria:

Government Auditing Standards require that a nonprofit entity establish and implement internal control policies to ensure that financial statements are properly prepared, reviewed, and reconciled on a timely basis, and that all financial information is accurate. According to the LSC Financial Guide, recipients must have procedures in place to properly account for and track all capitalized real and personal property, conduct a physical count of assets listed in the property subsidiary ledger at least once every two years, and maintain a cost allocation policy that is consistently applied.

Condition:

Based on our 2024 audit, we received the trial balance three times—in March, May, and June and each version contained significant differences. For the initial versions of the trial balance many accounts either lacked supporting schedules or the schedules provided did not reconcile to the corresponding trial balance accounts. The financial statements were not prepared or reconciled in accordance with the supporting records. For example, accounts payable and accounts receivable schedules were not provided; the property and equipment schedule provided was from 2023 with no updates, which was not reasonable; indirect cost allocations were incomplete; and grant expense allocations were not properly prepared or reconciled.

Cause:

MLSC did not have an effective process in place to ensure the timely preparation, review, and reconciliation of financial statements on a periodic basis.

Effect:

As a result, the financial records were incomplete and inaccurate, creating audit conditions that increased the risk of material misstatement and reduced the reliability of financial reporting.

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-001 Financial Management Tasks, continued

Recommendation:

We recommend that MLSC strengthen its internal control procedures over financial reporting by:

1. Establishing a formal timeline and responsibilities for the preparation, review, and reconciliation of financial statements.
2. Ensuring that all supporting schedules (including accounts receivable, accounts payable, and fixed asset schedules) are reconciled to the general ledger before submission to auditors.
3. Performing periodic reviews of indirect cost allocations and grant expense allocations to ensure they are accurate and comply with the organization's cost allocation policy.
4. Conducting regular training for accounting and management staff on financial reporting and reconciliation procedures in accordance with LSC and *Government Auditing Standards* requirements.

Management's Response and Corrective Action Plan:

MLSC acknowledges the finding and concurs with the auditor's recommendation. Management is committed to maintaining accurate, timely, and reliable financial reporting in accordance with Government Auditing Standards and the LSC Financial Guide.

Responsible person: Exec. Director, Lee Pliscou

Corrective action planned: MLSC currently has a Financial Management and Internal Control Policy. This policy is strictly being enforced and fully implemented to ensure compliance with both the LSC Financial Guide and Government Auditing Standards.

- MLSC has established a financial oversight and audit committee, and identifies the duties of the committee in writings.
- The financial oversight and audit committee is required to review quarterly the management report prepared by the Chief Fiscal Officer.
- The Chief Fiscal Officer will review and reconcile the subsidiary ledger after the month-end close and before the submission of monthly report to the Board of Directors.
- To ensure that internal controls are strengthened and that future financial statements are properly prepared, the Chief Fiscal Officer will conduct an annual training with all accounting staff on reconciliation procedures before the year-end close.

Anticipated completion date: Dec. 31, 2026

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

SECTION III – Findings and Questioned Costs relating to Federal Awards

Finding 2024-002 LSC Financial Guide § 3.3 Fund Balance

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.3 Fund Balance, LSC carryover funds must be used on a “first-in, first-out” basis, before the expenditure of current grant funds awarded for the same purposes.

Condition:

The 2024 audit schedule that we received indicated that MLSC did not first use the fund balance carried over from the past year, and instead spent current LSC grant received and adjusted the ending fund balance at the year end.

Cause :

MLSC did not follow the LSC Financial Guide § 3.3 Fund Balance guidance, MLSC did not monitor the ending balance of the LSC fund and did not properly review the use of the LSC fund balance.

Effect:

Not using prior-year carryover funds first results in noncompliance with LSC Financial Guide § 3.3. This increases the risk of misstating the fund balance, reporting inaccurate carryover amounts to LSC, and creating questioned costs if expenditures are not properly matched to the correct grant year. It also reflects delayed use of prior-year funds, which may affect LSC’s assessment of MLSC’s grant administration.

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-002 LSC Financial Guide § 3.3 Fund Balance, continued

Recommendation:

MLSC should monitor the fund balance timely, and should ensure that the prior year fund balance is spent before the current year's grant. MLSC should separately list the expenditures spent under the prior year carryover and the expenditures under the current year LSC grant.

Management's Response and Corrective Action Plan:

MLSC management would like to provide the following clarification regarding the finding that MLSC did not use the prior-year end fund balance before expending the current year's LSC grant.

Just in the first month of 2024, we already have a substantial deficit from the funding that we received. We have started using the fund balance that is in our bank account. There was no other source of funds for us but the fund balance. Being non-profit, whatever is on hand is used first and whatever is received last is the actual cash on hand at the end of the year.

It is also important to note that MLSC's local funder's grants are not received on a regular monthly basis. Some are disbursed quarterly, and FSM is received only once—typically toward the end of the fiscal year.

The appearance of using current-year funds first is due to the timing and presentation in the audit schedule, not the actual fund flow.

Responsible person: Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned: None

Anticipated completion date: Completed.

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-003 LSC Financial Guide § 3.6.1 Capitalized Assets

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.6.1 Capitalized Assets, recipients must have procedures in place to properly account for and track all of their capitalized real and personal property, such as land, buildings, leasehold improvements, capital improvements, furniture, fixtures, and equipment.

LSC requires capitalized property and equipment to be recorded in a property subsidiary ledger that reconciles to the general ledger. The property subsidiary ledger must include:

- Description of the property
- Date acquired
- Check number (if applicable)
- Original cost (if purchased)
- Fair value (if donated)
- Method of valuation (if donated)
- Salvage value (if any)
- Funding source(s)
- Estimated life
- Depreciation method
- Identification number
- Location

Recipients are required to report in their financial statements the value of LSC-funded vs. non-LSC funded property and equipment, including accumulated depreciation.

Condition:

MLSC did not maintain the accounting records to track all fixed assets purchased, including the description, the useful life, the value and the depreciation during the year. We discovered that during the year, fixed assets were not monitored and no lapsing schedule was maintained. We were not provided a listing that segregated the LSC-funded property and equipment from the non-LSC funded property and equipment.

MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2024

Finding 2024-003 LSC Financial Guide § 3.6.1 Capitalized Assets, continued

Cause :

MLSC did not monitor or to keep a list of the fixed assets on hand to track the value, the existence or the depreciation of the fixed assets during the year.

Effect:

The absence of a complete and accurate fixed asset subsidiary ledger results in noncompliance with LSC Financial Guide § 3.6.1. Without proper tracking, MLSC cannot reliably determine the value, location, or existence of its assets, nor verify whether depreciation is recorded correctly. This increases the risk of misstated financial statements, inadequate safeguarding of property, and incorrect reporting of LSC-funded versus non-LSC-funded assets.

Recommendation:

MLSC should follow the LSC Financial Guide § 3.6.1 Capitalized Assets guidance and keep tracking all the fixed assets.

Management's Response and Corrective Action Plan:

MLSC management acknowledges the finding and concurs in part. MLSC has an established Fixed Asset and Capitalization Policy in accordance with LSC Financial Guide § 3.6.1, which includes maintaining a detailed subsidiary ledger and lapsing (depreciation) schedule. During the audit, the lapsing schedule was provided to the auditors upon request. However, the master fixed asset record (which includes itemized property details, funding source, and location) was not submitted because it was not requested during the audit process.

Responsible person: Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned: To further ensure full compliance and to strengthen documentation and transparency, MSLC, with the supervision of the Chief Fiscal Officer, MLSC continues to enforce the existing Fixed Asset and Capitalization Policy and ensures that all property records are maintained in accordance with LSC Financial Guide 3.6.1. MLSC ensures to conduct periodic internal review of fixed assets registry and continues to maintain these records and made them readily available and provided to auditors, even if not specifically requested.

Anticipated completion date: Completed.

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-004 LSC Financial Guide § 3.6.2 Physical Inventory

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

LSC Financial Guide § 3.6.2 requires recipients to perform a physical inventory of all assets listed in the property subsidiary ledger at least once every two years. The inventory process must be documented, including the physical count, reconciliation of any differences between the physical count and the subsidiary ledger, and proper authorization and documentation for any write-offs. Documentation should include dates, personnel involved, evidence of supervisory review, and approvals for asset disposals.

Condition:

We inquired with the MLSC, and MLSC was able to provide the list of fixed assets for each office. However, there is no record showing the inventory process and the investigation and reconciliation of any differences between the physical inspection and the property subsidiary ledger. The list of fixed assets in each office was not reconciled to the property ledger and we could not determine the accuracy of the inventory count or the property ledger as there was no property ledger for 2024.

There were no documents to support fixed assets written off, or for the approval of the write offs.

There were many items on the fixed assets listing indicated as damaged or inactive. We were able to see the list but we could not verify if the physical count was performed. There was no signature of the person who performed the inventory count, and no date or signature of a witness or for a management review.

Cause :

MLSC did not perform physical inventory count or reconcile the physical count to the property subsidiary ledger.

MICRONESIAN LEGAL SERVICES CORPORATION
(RECIPIENT NO. 952000)
(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2024

Finding 2024-004 LSC Financial Guide § 3.6.2 Physical Inventory, continued

Effect:

Failure to conduct and document a complete physical inventory results in noncompliance with LSC Financial Guide §3.6.2. Without a reconciled, verified asset listing, MLSC cannot ensure the accuracy or existence of its fixed assets, increasing the risk of misstated asset balances, unrecorded write-offs, or undetected loss, damage, or misappropriation of property. The absence of supporting documentation also limits MLSC's ability to demonstrate proper stewardship of LSC-funded assets.

Recommendation:

MLSC should follow the LSC Financial Guide § 3.6.2 Physical Inventory and conduct the required periodic physical inventories count.

Management's Response and Corrective Action Plan:

MLSC management acknowledges the finding and concurs in part. MLSC has an established Fixed Asset and Physical Inventory Policy in accordance with LSC Financial Guide § 3.6.2. The policy requires that a complete physical inventory be conducted at least once every two years, and MLSC has been performing these inventories regularly. However, management recognizes that the documentation of the most recent physical inventory was incomplete, specifically lacking the signatures, dates, and reconciliation notes required to demonstrate full compliance.

Responsible person: Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned: To address this issue and ensure full adherence to the policy, MLSC, with the supervision of the Chief Fiscal Officer continued the implementation of Physical Inventory Procedures requiring a full physical inventory every two years, including proper documentation and reconciliation with the subsidiary ledger. To improve documentation, the Chief Fiscal Officer will conduct training to ensure that each future physical inventory count includes the date of the count, signature of personnel conducting the inventory, a witness and management reviewer, reconciliation records, and authorization and documentation for any write-offs or disposals.

Anticipated completion date: June 30, 2026.

MICRONESIAN LEGAL SERVICES CORPORATION

(RECIPIENT NO. 952000)

(A NONPROFIT CORPORATION)

Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-005 LSC Financial Guide § 3.7.1 Cost Allocation

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.7.1 Cost Allocation. The cost allocation policy must address the following:

- Direct and indirect cost definitions
- Direct cost allocation methodology(ies)
- Indirect cost allocation methodology(ies) including allocation bases (e.g., total direct costs, direct salaries and wages, attorney hours, numbers of cases, numbers of employees)
- Frequency of allocation
- Who conducts the allocation and who performs the review
- Documentation requirements to support the allocation
- Reconciliation process related to salaries and wages directly charged to LSC grants and contracts

Methodology to address “exception for certain indirect costs”

Condition:

Our testing and inquiries indicated that MLSC performs its cost allocations through year-end reclassifications rather than through a consistent, documented process during the year. Direct costs were reclassified at year-end to assign expenses to the appropriate funding source, and indirect costs were calculated and allocated only after multiple versions of the trial balance were prepared. MLSC provided only an Excel adjusting journal entry for the indirect cost allocation, with no supporting documentation, no calculation worksheets, no approval evidence, and no explanation of the allocation methodology. As a result, we were unable to verify the accuracy of the allocations or determine whether the methods used complied with LSC requirements.

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Finding 2024-005 LSC Financial Guide § 3.7.1 Cost Allocation, continued

Cause :

MLSC did not perform timely review or monitoring of direct and indirect cost allocations, and the allocation methodologies used were not clearly defined, consistently applied, or aligned with LSC guidance or MLSC's internal policies.

Effect:

MLSC did not comply with LSC Financial Guide § 3.7.1. The lack of documented, consistent, and supportable allocation methodologies increases the risk of inaccurate cost allocations, misclassification of expenses, and questioned costs due to insufficient support for charges to the LSC grant.

Recommendation:

MLSC should follow the LSC Financial Guide § 3.7.1 Cost Allocation.

Management's Response and Corrective Action Plan:

Management agrees.

Responsible person: Executive Director Lee Pliscou

Corrective action planned: This has been corrected as of October 2025. MLSC Board of Directors approved a revised MLSC Accounting Manual with updates intended to comply with LSC's Financial Guide on cost allocation. In particular, our new cost allocation policy addresses:

- Direct and indirect cost definitions
- Direct cost allocation methodology
- Indirect cost allocation methodology including allocation bases (total direct costs)
- Frequency of allocation (annual)
- Who conducts the allocation and who performs the review (Chief Fiscal Officer, Executive Director)
- Documentation requirements to support the allocation (calculation work papers)
- Reconciliation process related to salaries and wages directly charged to LSC grants and contracts
- Methodology to address "exception for certain indirect costs."

Anticipated completion date: Completed.

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For The Year Ended December 31, 2024

Finding 2024-006 CSR Handbook § 3.3 Timely Closing of Cases

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per CSR Handbook § 3.3 Timely Closing of Cases, to ensure accurate case service reporting for each grant term, LSC recipients are required to close cases in a timely manner, LSC recipients should close cases in the grant year in which legal assistance has ceased, although there are limited exceptions to this provision.

Condition:

Based on our testing of the cases, 5 out of 142 cases or 3.5% of the cases we selected, the cases were not closed on time.

Here are the case numbers.

13E-7000131-1
20E-7017958-1
17E-6000738-1
22E-6000296-1
21E-5010550-1

Cause :

MLSC did not monitor many of the cases and track the case status to ensure the cases are closed on time.

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Finding 2024-006 CSR Handbook § 3.3 Timely Closing of Cases, continued

Effect:

Failure to close cases in the year legal assistance ended results in noncompliance with CSR Handbook § 3.3 and increases the risk of inaccurate case service reporting to LSC. Untimely case closures can lead to overstated active caseloads, misreported service volumes, and reduced reliability of MLSC's CSR data, which may affect LSC's assessment of MLSC's program performance and compliance.

Recommendation:

MLSC should follow the CSR Handbook § 3.3 Timely Closing of Cases.

Management's Response and Corrective Action Plan:

Management agrees. Management will address this as follows:

Responsible person: Lee Pliscou

The cases identified in the audit as not having been closed on time do not reflect any pattern—the cases are from different offices, with different staff assigned to each, and with differing, unique fact situations which lead to the office keeping them open.

Management will provide training to the regional office directing attorneys on following protocols to review open cases in each office to ensure cases are timely closed. Management will provide follow up supervision for each of the directing attorneys by running reports from our case management system to identify cases in their respective offices that may need attention to ensure they are timely closed.

Anticipated completion date: February 28, 2026

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Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-007 LSC Financial Guide § 2.1.1 a. General Accounting Controls

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 2.1.1 a. general accounting controls, the recipient needs to have written policies and procedures to request and approve changes to the chart of accounts.

Condition:

MLSC does not have written policies and procedures to request and approve changes to the chart of accounts. We did not see any documentation to indicate any requests or approvals of the changes to the chart of accounts.

Cause :

MLSC did not establish policies and procedures to govern the changes to the chart of accounts.

Effect:

The absence of documented policies and procedures for requesting and approving changes to the chart of accounts results in noncompliance with LSC Financial Guide § 2.1.1(a). Without formal controls, there is an increased risk of unauthorized or inconsistent account changes, misclassification of transactions, and reduced reliability of financial reporting.

Recommendation:

MLSC should develop and implement written policies and procedures governing changes to the chart of accounts. These procedures should outline who may request changes, who must review and approve them, and what documentation is required to ensure proper authorization and maintain an accurate and controlled accounting structure.

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For The Year Ended December 31, 2024

Finding 2024-007 LSC Financial Guide § 2.1.1 a. General Accounting Controls, continued

Management's Response and Corrective Action Plan:

Management agrees. Management has addressed this as follows:

Responsible person: Lee Pliscou

Since July 2024, management has required that accounting staff must request changes to the chart of accounts by completing a Google Form, which is reviewed and approved by the Executive Director.

This policy is carried over into our new Accounting Manual, approved by MLSC's Board in October 2025:

- Accounting staff must request any changes to our GL account using this form: https://docs.google.com/forms/d/e/1FAIpQLSceN9Qaipv786HA5HH8VR2ayb6MmtW-aocJDYwHauU1RLC45w/viewform?usp=sf_link
- The Executive Director will review these promptly, and approve as informed by our financial operations.
- Records of the request and review are saved here: https://docs.google.com/spreadsheets/d/10_3CiYXwORgspzysd_xtnxYFovuPeDLbHSAN3A2JQE/edit?usp=sharing

We have been using this form since July 2024.

Anticipated completion date: Completed.

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Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-008 LSC Financial Guide § 2.5.3 Electronic Data Processing and Cybersecurity

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 2.5.3 Electronic Data Processing and Cybersecurity, the recipient is required to have written security policies and procedures for physical and digital assets including all financial data and records. The policies and procedures should be part of an overall data and records security policy and an annual overall risk-assessment process.

Condition:

MLSC did not conduct an annual risk assessment. MLSC's cybersecurity policies are not complete and do not include controls and other measures to safeguard physical and digital assets, maintenance of physical access controls for servers and storage rooms, and development and periodic testing of its emergency disaster prevention and recovery plan and performance of regular backups and offsite storage of data records. There is no person within MLSC who is formally assigned to oversee computer and data security responsibilities.

Cause :

MLSC did not establish the policies and controls that meet the LSC Financial Guide § 2.5.3 Electronic Data Processing and Cybersecurity requirements.

Effect:

MLSC's lack of a comprehensive cybersecurity program and annual risk assessment results in noncompliance with LSC Financial Guide § 2.5.3. The absence of documented security controls, defined responsibilities, disaster recovery procedures, and offsite backups increases the risk of unauthorized access, data loss, service disruption, and compromised financial and client information. These gaps weaken MLSC's ability to safeguard both physical and digital assets.

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Finding 2024-008 LSC Financial Guide § 2.5.3 Electronic Data Processing and Cybersecurity, continued

Recommendation:

MLSC should develop and implement a complete cybersecurity and data security framework consistent with LSC Financial Guide § 2.5.3. This should include (1) conducting an annual risk assessment, (2) establishing formal security policies and procedures, (3) defining staff roles and responsibilities, (4) implementing physical and digital access controls, and (5) maintaining and periodically testing a disaster recovery and data backup plan, including offsite storage of critical records.

Management's Response and Corrective Action Plan:

Management agrees, and has addressed this as follows:

Responsible person: Lee Pliscou

MLSC Board of Directors approved a revised accounting manual in October 2025 which requires an annual cybersecurity assessment and response in compliance with LSC Financial Guide § 2.5.3, together with a formal risk assessment of banking operations to identify and address vulnerabilities, as required by LSC Financial Guide § 3.2.1.

Specifically, our cybersecurity policies include the following requirements:

- Perform (and document) an annual risk assessment
- Resolve any risk findings or conclusions
- Maintain physical access controls for servers and storage rooms
- Develop and periodically test an emergency disaster prevention and recovery plan
- Perform regular back up of electronic records and systems stored offsite or in a virtual environment with easy-to-use restoration options
- Formally assign computer and data security responsibilities

The risk assessment process:

- Identifies the physical and digital assets susceptible to cyberattacks
- Identifies risks to those assets (risks should be evaluated annually for changes)
- Evaluates the risks (e.g., high, medium, or low) based on likelihood and impact
- Documents the results of the risk assessment, including the development and implementation of appropriate controls

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Finding 2024-008 LSC Financial Guide § 2.5.3 Electronic Data Processing and Cybersecurity, continued

Also, per our new Accounting Manual, MLSC conducts a risk assessment of its electronic banking policies and procedures to identify areas that need additional safeguards and protections. We do this in conjunction with the annual cybersecurity risk assessment.

As of November 2025, MLSC has contracted with a consultant to provide such an assessment, and the contractor has delivered a first draft of an assessment.

Anticipated completion date: MLSC has already completed the requirement to have policies in compliance with LSC Financial Guide Sections 2.5.3 (Electronic Data Processing and Cybersecurity) and 3.2.1 (Bank accounts). MLSC will complete the annual assessment by February 28, 2026.

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Finding 2024-009 LSC Financial Guide § 3.2.1 Bank accounts

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.2.1 Bank accounts, the recipient needs to have policies and procedures for all banking activities, including electronic banking. Specifically, LSC requires recipients to conduct risk assessments of their electronic banking policies and procedures to identify areas that need additional safeguards and protections.

Condition:

MLSC did not have policies and procedures for this area and no risk assessment was conducted for this area.

Cause :

MLSC failed to update the policies and procedures to include the risk assessment to meet the LSC financial guide requirement.

Effect:

MLSC's lack of documented policies, procedures, and risk assessments for banking activities, including electronic banking, increases the risk of non-compliance with LSC requirements and potential mismanagement or fraud related to bank accounts.

Recommendation:

MLSC should develop and implement comprehensive policies and procedures for all banking activities, including electronic banking, and conduct formal risk assessments to identify and address vulnerabilities. This will ensure compliance with LSC Financial Guide § 3.2.1 and enhance the safeguarding of their banking operations.

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Finding 2024-009 LSC Financial Guide § 3.2.1 Bank accounts, continued

Management's Response and Corrective Action Plan:

See the response on finding 2024-009

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Finding 2024-0010 LSC Financial Guide § 3.2.4 Cash Disbursements

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.2.4 Cash Disbursements, the recipient is required to have procedures for timely review and approval of transactions (including electronic transactions) , a process to confirm disbursements are made to approved payees, procedures in place to identify and prevent improper or duplicate payments, procedures in place to verify invoice details (vendor, quantities, and price of goods/services received) against goods/services received.

3.2.4.a Employee Expense Reimbursements Recipients are required to adopt written expense reimbursement policies and procedures. The policy should include procedure details, roles/responsibilities, reimbursement submission deadlines, documentation requirements, review/approval requirements.

3.2.4.b Travel Expenses, Recipients are required to have detailed local travel policies.

3.2.4.b.ii Travel Advances In the event a recipient allows employees to request and receive travel advances, the recipient’s travel policy must identify when the employee is permitted to request a travel advance, how much the employee is permitted to request, and the process for such an advance to be approved. The policy should also address those situations where an employee must repay an advance.

Condition:

MLSC did not have a complete cash disbursement policy to demonstrate compliance with LSC requirements.

Cause :

MLSC failed to update the cash disbursement policy to reflect the requirements under § 3.2.4 Cash Disbursements.

Finding 2024-0010 LSC Financial Guide § 3.2.4 Cash Disbursements, continued

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Effect:

MLSC's lack of a comprehensive cash disbursement policy that addresses timely review, approval, verification, and controls increases the risk of improper, duplicate, or unauthorized payments, leading to potential non-compliance with LSC requirements and financial mismanagement.

Recommendation:

MLS should develop and implement a complete cash disbursement policy that includes procedures for review and approval of transactions, confirmation of payees, prevention of improper or duplicate payments, and verification of invoice details. This will ensure adherence to the requirements outlined in LSC Financial Guide § 3.2.4 and strengthen internal controls over cash disbursements.

Management's Response and Corrective Action Plan:

MLSC concurs with the audit finding. Management acknowledges that the previous cash disbursement policy did not fully incorporate the requirements outlined in LSC Financial Guide § 3.2.4. MLSC believes that with the implementation of the revised Cash Disbursement Policy and related staff training, all recommendations in the audit finding have been fully addressed.

Responsible person: Exec. Director, Lee Pliscou and Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned: MLSC has reviewed and revised the policy, and the Board of Directors approved an updated Cash Disbursement policy that fully aligned with the LSC Financial Guide. MLSC staff were trained on the new procedures to ensure full understanding and compliance. The revised policy was shared with all the staff at MLSC's share drive.

Anticipated completion date: Completed

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Schedule of Findings and Questioned Costs

For The Year Ended December 31, 2024

Finding 2024-0011 LSC Financial Guide § 3.2.5 Petty Cash

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2024
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Per LSC Financial Guide § 3.2.5 Petty Cash, The policy must address the following:

- Identify the employees responsible for custody, disbursement, approval, and reconciliation with proper segregation of duties
- Require monthly reconciliation of all petty cash funds (including confirming actual cash balance against records) and outline proper documentation
- Describe allowable uses of petty cash (e.g., transaction limit, types of expenses)
- Describe the documentation necessary to support each petty cash disbursement
- Outline procedures to follow in the event there is an overage or shortage in the fund

Condition:

MLSC's petty cash policy did not include the required elements outlined in the LSC Financial Guide §3.2.5, such as segregation of duties, monthly reconciliation procedures, allowable uses, supporting documentation, and procedures for overages or shortages. Additionally, MLSC failed to provide documentation of monthly reconciliations and cash counts, and the only recorded cash count lacked proper verification details. The theft of \$400 in petty cash in May 2024 remained unresolved, with no recovery or clearance.

Cause:

MLSC did not update or establish a petty cash policy that meets the requirements of LSC Financial Guide §3.2.5, leading to inadequate controls and oversight over petty cash transactions.

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Finding 2024-0011 LSC Financial Guide § 3.2.5 Petty Cash, continued

Effect:

MLSC's failure to comply with the established policies and procedures increases the risk of misappropriation, unaccounted petty cash, and weak internal controls, as evidenced by the unresolved theft and lack of proper reconciliation documentation.

Recommendation:

MLSC should develop and implement a comprehensive petty cash policy aligned with LSC Financial Guide §3.2.5 requirements. The policy should include segregation of duties, monthly reconciliation procedures with proper documentation and approval, clear allowable uses, and procedures for addressing overages or shortages. Regular monitoring and proper recordkeeping will strengthen internal controls and prevent future loss or mismanagement of petty cash.

Management's Response and Corrective Action Plan:

MLSC management acknowledges the finding and concurs with the auditor's recommendation. Management would like to note that MSLC **has an existing Petty Cash Policy**, which was **recently updated and approved by the Board of Directors** to ensure full compliance with **LSC Financial Guide §3.2.5** that address the following:

- Segregation of duties
- Required monthly reconciliation of all petty cash funds
- Allowable use of petty cash
- Documentation necessary to support each petty cash disbursement
- Procedures to follow in the event of overage or shortage in the fund

Responsible person: Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned: The updated Petty Cash Policy is immediately implemented to strengthen internal control, ensure accountability, and prevent future loss or mismanagement. A monthly petty cash reconciliations for each office is scheduled. These corrective actions will ensure compliance with LSC requirements

Anticipated completion date: Completed

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SECTION IV – Prior Audit Findings and Questioned Costs

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2020-001	Financial Management Tasks	Resolved

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022-001	Part 1636 Client Identity and Statement of Facts	Resolved
2020-002	Part 1635 Timekeeping Requirement	Resolved
2020-003	Equipment and Real Property Management	Resolved
2019-001	Part 1635 Timekeeping Requirement	Resolved

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at December 31, 2023:

Questioned costs as previously reported	\$ _____ -
Questioned costs of fiscal year 2024 Single Audit	_____ -
Unresolved questioned costs at December 31, 2024	\$ _____ -