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, 2025

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, 2025

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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, 2025

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, 2025, 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, 2025, 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.

Saipan Office
1930 Picarro Lane, I Liyang Village
P.O. Box 504053, Saipan, MP 96950
Tel Nos. (670) 235-8722 (670) 233-1837
Fax Nos. (670) 235-6905 (670) 233-8214

Guam Office
333 South Marine Corps Drive
Tamuning, Guam 96913
Tel Nos. (671) 646-5044 (671) 472-2680
Fax Nos. (671) 646-5045 (671) 472-2686

Palau Office
PO Box 1266
Koror, PW 96940
Tel Nos. (680) 488-8615
Fax Nos. (680) 488-8616

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 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, 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, 2025 (pages 35 and 36) 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 July 31, 2026, 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.

Burger Comer & Associates

Saipan, MP
July 31, 2026

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

Statement of Financial Position
December 31, 2025
(With comparative totals as of December 31, 2024)

ASSETS		2025	2024
Current assets:			
Cash and cash equivalents	$	129,140	137,980
Restricted cash (CTA)		41,948	34,559
Other receivables		135,134	42,753
Prepaid expenses		47,530	63,559
Total current assets		353,752	278,851
Other assets		48,260	29,654
Investments		674,549	1,108,501
Right of use asset		117,319	119,893
Property and equipment, net		31,093	41,939
	$	1,224,973	1,578,838

LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable		12,252	71,007
Accrued vacation leave		200,250	220,038
Client trust account (CTA)		41,948	34,559
Lease liability current		77,785	50,150
Other liabilities		235,283	248,529
Total current liabilities		567,518	624,283
Lease liability noncurrent		41,445	70,532
Total liabilities		608,963	694,815
Net assets:			
With donor restrictions		43,884	312,112
Without donor restrictions		572,126	571,911
Total net assets		616,010	884,023
	$	1,224,973	1,578,838

See accompanying notes to financial statements.

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

Statement of Activities
Year ended December 31, 2025
(With comparative totals for the year ended December 31, 2024)

	Without Donor Restrictions	With Donor Restrictions LSC	With Donor Restrictions BOA	Totals 2025	Totals 2024
Operating revenues, gains, and other support:					
LSC grants	$ -	2,223,505	-	2,223,505	2,668,955
Other grants	-	148,203	-	-	-
Contributions	687,004	-	-	687,004	756,291
Interest and dividends	-	-	21,411	21,411	29,053
In-kind contribution - donated rent	37,200	-	-	37,200	37,600
Miscellaneous income	28,486	-	-	28,486	69,362
Net assets released from restrictions:					
Satisfaction of program restrictions	2,716,225	(2,371,708)	(344,517)	-	-
Total operating revenues, gains, and other support	3,468,915	-	(323,106)	2,997,606	3,561,261
Operating expenses:					
Program services	2,779,744	-	-	2,779,744	3,009,287
Management and general	688,956	-	-	688,956	812,593
Total operating expenses	3,468,700	-	-	3,468,700	3,821,880
Change in net assets from operations	215	-	(323,106)	(322,891)	(260,157)
Nonoperating investment gain (loss)	-	-	54,878	54,878	10,444
Change in net assets	215	-	(268,228)	(268,013)	(249,713)
Net assets at beginning of year, as previously reported	571,911	-	312,112	884,023	1,133,495
Adjustment of beginning net assets, lease	-	-	-	-	241
Net assets at beginning of year, as adjusted	571,911	-	312,112	884,023	1,133,736
Net assets at end of year	$ 572,126	-	43,884	616,010	884,023

See accompanying notes to financial statements.

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

Statement of Functional Expenses
Year ended December 31, 2025
(With comparative totals for the year ended December 31, 2024)

	Program Services	Management and General	2025 Total	2024 Total
Salaries and wages:				
Attorneys	$ 1,042,601	-	1,042,601	1,122,695
Administrative and others	275,713	425,682	701,395	725,016
Micronesian counselors	526,563	-	526,563	465,905
Employee benefits and payroll taxes	497,700	109,678	607,378	718,814
Office rentals and utilities	207,542	51,538	259,080	232,849
Other direct expenses	77,980	-	77,980	168,955
Communication	63,462	6,834	70,296	71,190
Miscellaneous expenses	-	6,915	6,915	68,115
Travel and meeting	8,626	20,533	29,159	61,024
Office supplies and expenses	51,271	4,119	55,390	46,883
Subscription	-	27,671	27,671	27,692
Depreciation	23,268	1,792	25,060	21,841
Contract services	-	31,363	31,363	14,899
Equipment rental and maintenance	5,018	2,831	7,849	9,818
Insurance expenses	-	-	-	28,278
Bank charges	-	-	-	306
In-kind expense - donated rent	-	-	-	37,600
Total expenses	$ 2,779,744	688,956	3,468,700	3,821,880

See accompanying notes to financial statements.

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

Statement of Cash Flows
Year Ended December 31, 2025
(With comparative totals for the year ended December 31, 2024)

		2025	2024
Cash flows from operating activities:			
Change in net assets from operations	$	(322,891)	(260,157)
Depreciation		25,060	21,840
Lease adjustment		1,118	-
(Increase) decrease in assets:			
Other receivables		(92,381)	210,548
Other asset		(18,606)	24,932
Prepaid expenses		16,029	3,291
Increase (decrease) in liabilities:			
Accounts payable		(58,755)	27,027
Accrued vacation leave		(19,788)	2,295
Client trust account		7,389	30,788
Other liabilities		(13,246)	(119,276)
Net cash used in operating activities		(476,067)	(58,708)
Cash flows from investing activities:			
(Purchases) sales of investments		433,952	(239,743)
Purchase of property and equipment		(14,214)	(23,759)
Nonoperating investment gains and derivative income		54,878	10,444
Net cash provided by (used in) investing activities		474,616	(253,058)
Net change in cash and cash equivalents and restricted cash		(1,451)	(311,766)
Balances at beginning of year:			
Restricted cash		34,559	3,771
Cash		137,980	480,534
		172,539	484,305
Balances at end of year:			
Restricted cash		41,948	34,559
Cash		129,140	137,980
Cash and cash equivalents and restricted cash at end of year	$	171,088	172,539
Supplemental disclosure of noncash financing activities:			
Recognition of contributed rent:			
Noncash office rentals and utilities expense		37,200	37,600
Noncash contribution of office rentals and utilities		(37,200)	(37,600)
	$	-	-

See accompanying notes to financial statements.

(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

The accompanying financial statements have been prepared in accordance with Accounting Standards Codification (ASC) Topic 958**,** *Not-for-Profit Entities*. Under ASC 958, MLSC is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions include resources available to support the general operations of MLSC. They may also include donor-restricted contributions whose restrictions are met in the same reporting period in accordance with MLSC's accounting policy.

(2) Summary of Significant Accounting Policies, Continued

Reporting Entity, continued

- Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that are either temporary in nature, requiring the passage of time or specific actions by MLSC, or perpetual in nature, whereby the donor stipulates that the principal be maintained in perpetuity. When donor-imposed restrictions are satisfied or expire, the related net assets are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Management evaluates all contributions, grants, and other sources of support to determine whether donor-imposed restrictions exist. Contributions and grants without donor-imposed restrictions are reported as support without donor restrictions. Contributions and grants received with donor-imposed restrictions are reported as support with donor restrictions and are reclassified to net assets without donor restrictions when the applicable restrictions have been satisfied.

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, 2025 and 2024, net assets released from restrictions due to satisfaction of imposed restrictions amounted to $2,371,708 and $2,957,114, respectively, for LSC grants, and $344,517 and $1,928, respectively, for expenditures funded through non-federal grants.

(2) Summary of Significant Accounting Policies, continued

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of resources received with donor-imposed restrictions that are satisfied either by the passage of time or by expenditures incurred for specific program purposes.

As of December 31, 2025, donor-restricted net assets were available for the following purposes:

Restriction	**Purpose**
Legal Services Corporation (LSC) grants	To provide high-quality, efficient, and effective civil legal services in accordance with the applicable grant agreements, the Legal Services Corporation Act and Regulations, LSC Performance Criteria, and other applicable grant requirements. Grant funds are generally recognized as revenue as qualifying expenditures are incurred. Limited carryforward of certain LSC grant funds is permitted in accordance with LSC regulations and grant terms.
Bank of America Foundation	Foreclosure Prevention Legal Assistance and Community Redevelopment Legal Assistance programs.
Silicon Valley Community Foundation	General operating support for MLSC's response to Typhoon Mawar in Guam.
Federal, local government, and private grants	Program-specific legal assistance and other reasonable and necessary costs as specified in the applicable grant agreements.

Donor restrictions are satisfied either as qualifying expenditures are incurred for the designated programs or through the passage of time, depending on the terms of the individual grant agreements. Upon satisfaction of the applicable restrictions, the related amounts are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

MLSC had no net assets subject to donor-imposed restrictions in perpetuity as of December 31, 2025.

(2) Summary of Significant Accounting Policies, continued

Net Assets With Donor Restrictions, continued

Certain grants require that funds be expended during the applicable grant period. Although the Legal Services Corporation permits limited carryforward of certain grant funds in accordance with its grant terms and applicable regulations, substantially all grant funds are intended to be expended during the applicable grant period. Certain grants from local jurisdictions, including Palau, must be fully expended during the grant year.

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, 2025 and 2024, 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 $43,884 at December 31, 2025 and $311,647 at December 31, 2024. The BOA funds are included in “Investments” in the accompanying statement of financial position.

(2) Summary of Significant Accounting Policies, Continued

Contributions

Contributions, including grants and appropriations, are recognized as revenue when an unconditional promise to give is received or when the contribution is received, whichever occurs first. Contributions are reported as net assets without donor restrictions unless specifically restricted by the donor. Contributions received with donor-imposed restrictions are reported as net assets with donor restrictions and are reclassified to net assets without donor restrictions when the applicable restrictions have been satisfied.

MLSC also receives contributed nonfinancial assets in the form of donated office space from various governmental entities within its service area. Donated office space is recognized as contribution revenue and the corresponding occupancy expense at its estimated fair value on the date of donation.

During the year ended December 31, 2025, MLSC received donated office space for its Yap, Pohnpei, and Majuro offices. The estimated fair value of the donated office space was determined using the applicable government lease rate schedules for comparable facilities. The donated office space is used entirely in program services. Management determined that the donated office space is without donor restrictions, as no donor-imposed restrictions limit its use other than its intended purpose as office facilities.

Concentration of Revenue

A substantial portion of MLSC's operating support is received from the Legal Services Corporation (LSC). For the year ended December 31, 2025, approximately 65% of MLSC's total revenue was derived from LSC grants.

Because MLSC is substantially dependent upon funding from the Legal Services Corporation, any significant reduction in Congressional appropriations to LSC or changes in LSC's funding allocation methodology could have a material effect on MLSC's future operations and the level of legal services provided.

LSC funding is appropriated annually by the United States Congress and distributed among LSC grantees based primarily on the statutory funding formula, including population and other applicable allocation factors. Management is not aware of any anticipated reductions in LSC funding that would significantly affect MLSC's operations subsequent to December 31, 2025.

MLSC also receives financial support from federal agencies, local governments, foundations, and other private grantors. Management monitors funding sources on an ongoing basis and seeks to diversify funding where practical.

(2) Summary of Significant Accounting Policies, Continued

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, 2025, total cash and cash equivalents were $171,088. The corresponding bank balance was $213,015 in 2025, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) coverage.

At December 31, 2025, cash and cash equivalents included the following:

Deposits with federally insured banks	$ 213,015
	213,015

As of December 31, 2025 and 2024, custodian money market sweep deposits of $16,865 and $ – 0 - , 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, 2024, from which the summarized information was derived.

(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.

(2) Summary of Significant Accounting Policies, Continued

Investments

MLSC's investments are measured and reported at fair value in the accompanying statements of financial position. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (an exit price).

Investment income consists of interest and dividend income, together with realized and unrealized gains and losses arising from changes in fair value. Realized gains and losses are determined using the specific identification method. All investment income is recognized in the accompanying statement of activities in the period earned.

Investments funded by donor-restricted endowment or investment funds are reported as net assets with donor restrictions to the extent required by the applicable donor agreements. Investment earnings are released from donor restrictions when the related donor-imposed restrictions have been satisfied in accordance with the terms of the applicable agreements.

MLSC carries all investments at fair value. No investments are measured at amortized cost.

At December 31, 2025 and 2024, MLSC values its investments at fair value as follows:

	2025	2024
Equities:		
U.S. equities	$ 73,139	120,242
Non-U.S.equities	34,463	44,962
Non-classified	69	127
	107,671	165,331
Fixed income securities:		
Mortgage and asset backed securities	275,730	432,684
Government bonds	185,216	259,998
Corporate bonds	105,932	250,488
	566,878	943,170
Total investments	$ 674,549	1,108,501

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

ASC Topic 820, *Fair Value Measurement*, establishes a framework for measuring fair value and a hierarchy that prioritizes the inputs used in valuation techniques. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that MLSC can access at the measurement date.

Level 2 – Observable inputs other than quoted prices included within Level 1, including quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, and other observable market data.

Level 3 – Unobservable inputs reflecting management's assumptions about the assumptions market participants would use in pricing the asset.

The following table presents MLSC's investments measured at fair value on a recurring basis as of December 31, 2025 and 2024:

		Fair Value Measurement Using		
Investments by fair value level	2025	Level 1	Level 2	Level 3
Debt securities				
Mortgage and asset backed securities	$ 275,730	-	275,730	-
Government bonds	185,216	185,216	-	-
Corporate bonds	105,932	-	105,932	-
Total debt securities	566,878	185,216	381,662	-
Equity securities				
U.S. equities	73,139	73,139	-	-
Non-U.S.equities	34,463	34,463	-	-
Non-classified	69	-	-	69
Total equity securities	107,671	107,602	-	69
Total investments by fair value level	$ 674,549	292,818	381,662	69

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

Investments by fair value level		2024	Fair Value Measurement Using 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		943,170	259,998	683,172	-
Equity securities					
U.S. equities		120,242	97,673	-	-
Non-U.S.equities		44,962	43,989	-	-
Non-classified		127	-	-	127
Total equity securities		165,331	141,662	-	127
Total investments by fair value level	$	1,108,501	401,660	683,172	127

The fair value of marketable securities is based primarily on quoted market prices in active markets and is therefore classified within Level 1 of the fair value hierarchy.

There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2025 and 2024.

Investment income consists of:

- Interest income
- Dividend income
- Realized gains and losses
- Unrealized gains and losses resulting from changes in fair value

Realized and unrealized gains and losses are included in the accompanying statements of activities in the period in which they occur. 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.

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

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 custodian or counterparty, MLSC may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

MLSC maintains its investment portfolio with a nationally recognized financial institution. Management periodically monitors the financial condition of the custodian and believes custodial credit risk to be minimal.

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

MLSC's investment policy provides for diversification of investments and periodic monitoring of the portfolio to manage exposure to changes in interest rates.

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, 2024 and 2025, 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, 2025.

(2) Summary of Significant Accounting Policies, Continued

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)

MLSC evaluates its financial assets measured at amortized cost, including receivables, for expected credit losses in accordance with Accounting Standards Codification (ASC) Topic 326, Financial Instruments—Credit Losses (CECL).

Management estimates expected credit losses by evaluating individual receivables based on historical collection experience, payment history, and the financial condition of the respective grantor or customer. Because substantially all receivables are due from federal, state, and other governmental agencies with an established history of timely payment, management determined that the risk of credit loss is minimal. Accordingly, no allowance for expected credit losses was considered necessary as of December 31, 2025 and 2024.

Based on management's assessment of outstanding receivables as of December 31, 2025 and 2024, including the collection history of individual receivables and other relevant qualitative factors, management concluded that no allowance for credit losses was necessary. Accordingly, no provision for expected credit losses was recognized during the years ended December 31, 2025 or 2024.

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:

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, continued

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, 2025, 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.

(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, 2025 is $200,961.

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, 2025 and 2024, MLSC did not incur any advertising expenses.

Revenue Recognition

MLSC recognizes revenue in accordance with the applicable guidance in Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities, including the accounting requirements for contributions received, and ASC Topic 606, Revenue from Contracts with Customers, as applicable.

MLSC's revenue consists primarily of grants, contributions, and appropriations received to support its legal assistance programs.

Conditional Contributions

Substantially all grants received from the Legal Services Corporation (LSC) and certain other governmental agencies are considered conditional contributions because the agreements contain both (1) a right of return or release of the funding and (2) one or more barriers that must be overcome before MLSC is entitled to the funds. These grants are generally awarded on a cost-reimbursement basis.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition, continued

Revenue from conditional grants is recognized only as the applicable conditions are substantially met, which generally occurs as qualifying expenditures are incurred in accordance with the respective grant agreements. Amounts received before the conditions are satisfied are reported as refundable advances in the accompanying statement of financial position.

At year-end, management performs cost allocation procedures to ensure expenditures are properly assigned to the applicable grant programs in accordance with the terms of the respective grant agreements.

Contributions

Contributions that are unconditional are recognized as revenue when the promise to give is received or when the contribution is received, whichever occurs first. Contributions are reported as net assets without donor restrictions unless specifically restricted by the donor. Contributions with donor-imposed restrictions are reported as net assets with donor restrictions until the applicable restrictions have been satisfied.

Exchange Transactions

MLSC evaluates each funding arrangement to determine whether it represents an exchange transaction within the scope of ASC Topic 606 or a contribution within the scope of ASC Topic 958.

For the years ended December 31, 2025 and 2024, management determined that no material revenue transactions were within the scope of ASC Topic 606, as MLSC did not enter into contracts with customers for the exchange of goods or services.

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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

The financial statements of MLSC for the years ended December 31, 2025 and 2024 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

MLSC's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	2025
Cash and cash equivalents	$ 171,088
Other receivables	135,134
Financial assets available to meet general expenditures within one year	$ 306,222

Financial assets are considered unavailable when they are subject to donor-imposed restrictions, contractual restrictions, legal restrictions, or governing board designations that limit their use for general operating expenditures within one year of the statement of financial position date.

As of December 31, 2025, none of MLSC's financial assets available for current operations were subject to donor-imposed or contractual restrictions that would limit their availability for general expenditures within one year. Receivables are subject to normal collection timing and are expected to be collected within one year.

MLSC manages its liquidity to ensure that sufficient financial resources are available to meet its operating needs while maximizing the long-term preservation and growth of excess funds. The Board of Directors has adopted a liquidity policy that requires MLSC to maintain a minimum operating reserve of $500,000 to provide adequate working capital for ongoing operations and to address unforeseen expenditures.

Cash in excess of current operating requirements is transferred to MLSC's investment account managed by Raymond James and invested in accordance with the Board-approved investment policy. Management monitors cash flows, operating expenditures, and available financial resources throughout the year to maintain adequate liquidity for program and administrative activities.

(3) Liquidity and Availability of Assets, continued

Management believes MLSC has sufficient financial assets and available liquidity to meet its obligations and operating expenditures for at least one year from the statement of financial position date and does not anticipate any liquidity concerns.

(4) Summary of Funding

A summary of funding for the program year ended December 31, 2025 is as follows:

		2025	2024
Grantor:			
Legal Services Corporation:			
Annual grant and derivative income	$	2,371,708	2,669,417
Silicon Valley Community Foundation	$	-	68,173
BOA funding	$	-	2,393
Department of Justice	$	27,146	-
Local government contributions:			
CNMI donations	$	36,000	57,251
Chuuk		25,000	-
Pohnpei State		70,000	144,000
Republic of Palau		93,752	125,000
Majuro Atoll		124,000	124,000
Yap State		59,920	41,275
Paypal		1,337	-
FSM		150,000	150,000
Kosrae		15,000	10,000
Guam Judiciary		85,849	105,551
In-kind contribution - donated rent		37,200	37,600
	$	698,058	794,677

(5) Property and Equipment

Summarized below is MLSC's investment in its property and equipment as of December 31, 2025 and 2024:

LSC-Funded

	Balance at 1/01/25	Additions	Transfers/ Deletions	Balance at 12/31/25
Office furniture, fixtures and equipment	$ 55,472	-	-	55,472
Building	-	-	-	-
Less: Accumulated depreciation	(55,472)	-	-	(55,472)
	-	-	-	-

Non-LSC-Funded:

	Balance at 1/01/25	Additions	Transfers/ Deletions	Balance at 12/31/25
Office furniture, fixtures and equipment	$ 122,502	14,214	-	136,716
Buiding improvements	93,703	-	-	93,703
	216,205	14,214	-	230,419
Less: Accumulated depreciation	(174,266)	(25,060)	-	(199,326)
	41,939	(10,846)	-	31,093
Total property and equipment	$ 41,939	(10,846)	-	31,093

(5) Property and Equipment, continued

LSC-Funded

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

Non-LSC-Funded:

	Balance at 1/01/24	Additions	Transfers/ Deletions	Balance at 12/31/24
Office furniture, fixtures and equipment	$ 99,643	22,859	-	122,502
Buiding improvements	92,803	900	-	93,703
	192,446	23,759	-	216,205
Less: Accumulated depreciation	(152,426)	(21,840)	-	(174,266)
	40,020	1,919	-	41,939
Total property and equipment	$ 40,020	1,919	-	41,939

(5) Property and Equipment, continued

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.

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, 2025 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 3 years, with expiration dates ranging from 2026 through 2028.

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

Certain office facilities occupied by the Organization are leased under agreements that have expired and continue on a month-to-month basis pending execution of renewed lease agreements. These arrangements include the Organization's offices in Pohnpei, Palau, and the Commonwealth of the Northern Mariana Islands (Marianas).

Management evaluated these arrangements in accordance with ASC Topic 842, Leases, and concluded that, following expiration of the original lease terms, the remaining lease periods are month-to-month because the parties continue to operate under holdover arrangements without executing new lease agreements.

(6) Leases, continued

Under the terms of the applicable arrangements, either the Organization or the lessor may terminate the leases without significant economic penalty upon providing the required notice. The Pohnpei lease may be terminated by either party upon 30 days' written notice, while the Palau lease permits termination by the Organization upon 60 days' written notice. The Marianas office continues to operate under an informal month-to-month arrangement supported by correspondence with the landlord, and no new lease agreement has been executed.

Because these arrangements do not create an enforceable lease term greater than twelve months and neither party is economically compelled to continue the leases beyond the applicable notice period, management concluded that the arrangements qualify as short-term leases under ASC Topic 842. Accordingly, the Organization has elected the short-term lease recognition exemption and does not recognize right-of-use assets or lease liabilities for these arrangements. Lease payments are recognized as occupancy expense on a straight-line basis over the period in which the Organization has the right to use the leased premises.

Management intends to continue occupying these facilities as long as they remain suitable for the Organization's operations and continues to work with the respective landlords to obtain updated lease agreements where appropriate.

The following summarizes lease expenses for the years ended December 31, 2025 and 2024:

	2025	2024
Operating lease cost	$ 94,353	93,126

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

	2025	2024
Right of use asset		
Operating right of use asset	$ 117,319	119,893
Lease liabilities		
Operating lease liability- current	$ 77,785	50,150
Operating lease liability - noncurrent	41,445	70,532
Total Operating lease liabilities	$ 119,230	120,682

(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:

	2025	2024
Cash paid for the amounts included in the measurement of lease liabilities		
Operating cash flows from operating lease	$ 94,353	93,127
Weighted average remaining lease terms - operating	1.59 years	1.32 years
Weighted average discount rate - operating	4.5%	4.5%

Future payment commitment:

Year	**Payment**	**Interest**	**Principal**
2026	$ 119,154	41,369	77,785
2027	42,308	6,104	36,204
2028	6,600	1,359	5,241
	$ 168,062	48,832	119,230

(7) Commitments and contingencies

Legal Contingencies

MLSC is involved in various claims and legal matters arising in the ordinary course of business. Management evaluates pending matters in accordance with Accounting Standards Codification (ASC) Topic 450, Contingencies, and records liabilities when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. If a loss is reasonably possible but not probable, or if the amount of the loss cannot be reasonably estimated, the nature of the contingency is disclosed.

As of December 31, 2025, MLSC was involved in the following matters:

Employment Matter

A former employee filed a discrimination complaint against MLSC. The matter remained pending as of December 31, 2025 and was reported to MLSC's insurance carrier. Based on management's evaluation, including consultation with legal counsel, management concluded that a material loss was not probable as of year-end, and accordingly, no liability was recorded in the accompanying financial statements.

Subsequent to year-end, in July 2026, the matter was resolved without liability to MLSC.

Chuuk Receivership Matter

MLSC previously served as court-appointed receiver for the distribution of dividends to shareholders of a former cooperative organization in Chuuk. During prior years, a former employee improperly managed the receivership bank account, resulting in potential claims against MLSC.

The matter remained under investigation as of December 31, 2025 and was reported to MLSC's insurance carrier. Based on the information available at year-end, management concluded that no additional liability beyond amounts previously recognized, if any, was required under ASC 450.

Subsequent to year-end, the Court appointed a successor receiver, and the insurance carrier accepted the claim. Insurance proceeds of $26,426 were received in January 2026, substantially resolving the matter.

(7) Commitments and contingencies, continued

Petty Cash Incidents

The petty cash incidents identified during 2024 were investigated, reported to the Legal Services Corporation Office of Inspector General (LSC OIG) as required, and resolved. Employees involved are no longer employed by MLSC. Management concluded that no additional liability existed as of December 31, 2025.

Insurance Claims

Insurance claims relating to the matters described above remained pending as of December 31, 2025. The insurer accepted coverage, and claim proceeds were received in January 2026.

Other Matters

As of December 31, 2025, management is not aware of any additional pending or threatened litigation, investigations, grant compliance matters, regulatory proceedings, or claims requiring recognition or disclosure under U.S. generally accepted accounting principles. MLSC is not aware of any investigations by the Legal Services Corporation Office of Inspector General or any grant compliance matters that would materially affect the accompanying financial statements.

Management believes that the ultimate resolution of the matters described above will not have a material adverse effect on MLSC's financial position, changes in net assets, or cash flows.

Government Grant Compliance

MLSC receives a substantial portion of its operating support from the Legal Services Corporation (LSC) and other governmental grantors. These grants are subject to the terms and conditions of the respective grant agreements and applicable federal laws and regulations.

Grant expenditures are subject to audit and review by the respective funding agencies. Such examinations may result in questioned costs or the disallowance of certain expenditures requiring repayment to the grantor. Management believes MLSC has substantially complied with all significant grant requirements and that any adjustments resulting from future audits or examinations, if any, would not have a material effect on the accompanying financial statements.

(8) Functional expenses

The costs of providing MLSC's various programs and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services based on methods that management believes reasonably reflect the nature of the services provided and the relative benefits received.

Expenses that can be directly identified with a specific program or supporting activity are charged directly to that function. Expenses that benefit more than one functional area are allocated using reasonable and consistent methodologies applied by management.

MLSC allocates expenses among program services and management and general using the following methods:

Expense Category	**Allocation Method**
Salaries and wages	Actual time and effort of employees
Employee benefits and payroll taxes	Actual time and effort of employees
Rent and occupancy	Direct usage of office facilities
Utilities	Direct usage
Depreciation	Allocation based on the underlying use of the related capital assets
Insurance	Headcount and direct usage, as applicable
Information technology	Direct usage
Travel	Direct identification with the benefiting function
Professional fees	Direct identification with the benefiting function
Central office administrative costs	Approved indirect cost rate for grant reporting

MLSC allocates indirect costs using an annually calculated indirect cost rate. At the end of each fiscal year, management calculates the indirect cost rate by dividing total indirect costs by total direct costs. The approved indirect cost rate is then applied retrospectively to the actual direct expenditures of each applicable grant or funding source to allocate indirect costs in a fair and consistent manner. MLSC applies this methodology consistently across all funding sources, including Legal Services Corporation (LSC) and non-LSC grants, unless a funding agreement specifically restricts or prohibits the recovery of indirect costs. Unallowable costs are excluded from the indirect cost pool before the indirect cost rate is calculated to ensure compliance with applicable federal cost principles, LSC regulations, and grant requirements.

(8) Functional expenses, continued

The following table summarizes expenses by natural classification and functional classification for the year ended December 31, 2025:

Expense Category	**Program Services**	**Management And General (Indirect/Admin)**	**Total Expenses**
Salaries and Wages	$1,844,877	$425,682	$2,270,559
Employee Benefits and Payroll Taxes	$497,700	$109,678	$607,378
Office Rental and Utilities	$207,542	$51,538	$259,080

MLSC did not incur any fundraising or development expenses during the year ended December 31, 2025.

(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.

(10) Date of management's review

Management has evaluated subsequent events through July 31, 2026 the date the financial statements were available to be issued.

Subsequent to December 31, 2025, the following events occurred:

Legal Matters

A former employee filed a labor complaint requesting that the employee's termination be changed to a voluntary resignation. A hearing was held in February 2026, and, as of the date these financial statements were available to be issued, no decision had been rendered. Management, in consultation with legal counsel, does not believe the matter will have a material adverse effect on MLSC's financial position, changes in net assets, or cash flows.

(10) Date of management's review, continued

Legal Services Corporation Funding

Subsequent to year-end, MLSC was notified that its 2026 Legal Services Corporation (LSC) funding allocation was reduced by approximately 3.9% compared with the 2025 funding level.

Management evaluated the potential impact of the funding reduction and considered various operational alternatives, including workforce reductions. However, management subsequently requested supplemental funding from local governmental sources to offset the reduction in federal funding. As of the date the financial statements were available to be issued, no workforce reductions had been implemented.

Because the funding reduction relates to the 2026 fiscal year, no adjustment has been made to the accompanying 2025 financial statements.

Petty Cash Matter

Subsequent to year-end, MLSC identified a potential loss involving an employee who served as custodian of a petty cash fund. The total petty cash fund was $500, of which receipts supporting expenditures totaling $54.90 were available. The remaining balance of $445.10 had not been accounted for as of the date the financial statements were available to be issued.

The matter was reported to the Legal Services Corporation Office of Inspector General (LSC OIG) in accordance with applicable grant requirements. The employee's employment was terminated effective March 6, 2026. Management continues to evaluate the matter and believes any resulting loss, if any, will not have a material effect on the accompanying financial statements.

Other Subsequent Events

Management is not aware of any other subsequent events requiring adjustment to or disclosure in the accompanying financial statements. Specifically:

- No significant grants were received subsequent to year-end.
- No significant contracts were entered into.
- No significant capital acquisitions or other major purchases occurred.
- No significant Board actions requiring financial statement disclosure occurred.
- No additional litigation, regulatory matters, or grant compliance investigations requiring disclosure were identified.

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

Supplementary Schedule of Support, Revenue and Expenses and Changes in Net Assets for LSC Funds
Year ended December 31, 2025
(With comparative totals for the year ended December 31, 2024)

	Prior-Year Excess Fund Balance	Excess Fund Balance (GU)	Basic Field Grant-MP	Basic Field Grant-GU	LSC Mawar Disaster Grant	2025	2024
Support and revenue							
Grant Revenue	$ -	-	1,874,768	348,737	148,203	2,371,708	2,865,197
Gain on Sale (Guam Building)	-	-	-	-	-	-	91,455
Other LSC Income- Excess from DP	-	-	-	-	-	-	463
Total support and revenue	-	-	1,874,768	348,737	148,203	2,371,708	2,957,114
Personnel expenses							
Employee benefits and payroll taxes	-	-	150,017	49,424	12,179	211,620	519,611
Salaries and wages:							
Administrative and others	-	-	195,689	21,831	14,512	232,032	253,763
Micronesian counselors	-	-	346,967	107,754	13,849	468,570	471,847
Attorneys	-	-	712,644	87,548	54,097	854,289	971,073
Total personnel expenses	-	-	1,405,317	266,557	94,637	1,766,511	2,216,293
Other expenses							
Indirect costs	-	-	384,901	67,040	33,641	485,582	638,165
Office rental and utilities	-	-	55,230	15,140	-	70,370	189,779
Other direct expenses	-	-	2,476	-	17,531	20,007	113,357
Contract services	-	-	-	-	-	-	-
Communication	-	-	26,844	-	1,223	28,067	87,062
Depreciation	-	-	-	-	-	-	-
Repair	-	-	-	-	-	-	-
Travel	-	-	-	-	1,171	1,171	-
Office supplies and expenses	-	-	-	-	-	-	2,087
Equipment rental and maintenance	-	-	-	-	-	-	-
Total other expenses	-	-	469,451	82,180	53,566	605,197	1,030,450
Total expenses	-	-	1,874,768	348,737	148,203	2,371,708	3,246,743
Support and revenue over/(under) expenses	-	-	-	-	-	-	(289,629)
Other changes							
Transfer to disaster grant	-	-	-	-	-	-	-
Transfer of proceeds from sale of property	-	-	-	-	-	-	-
Net other changes	-	-	-	-	-	-	-
Total other changes	-	-	-	-	-	-	
Property net assets							
Beginning of year	-						
End of year	-						
Refundable advances							
Beginning of year	-						
End of year	$ -						

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

Supplementary Schedule of Support, Revenue and Expenses and Changes in Net Assets
for Bank of America Settlement Funds
Year ended December 31, 2025
(With comparative totals for the year ended December 31, 2024)

	2025	2024
Support and revenue:		
Interest and dividends	$ 21,411	29,053
Total support and revenue	21,411	29,053
Personnel expenses:		
Salaries and wages:		
Attorneys	29,814	-
Counselors	21,295	-
Administrative and others	4,472	1,216
Indirect cost	67,403	-
Office rental and utilities	42,875	-
Other direct costs	27,909	695
Employee benefits and payroll taxes	150,749	17
Total expenses	344,517	1,928
Change in net assets from operations	(323,106)	27,125
Nonoperating investment gain	54,878	10,444
Total change in net assets	(268,228)	37,569
Net assets at beginning of year	312,112	274,543
Net assets at end of year	$ 43,884	312,112

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, 2025

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, 2025, 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 July 31, 2026.

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.

Saipan Office
1930 Picarro Lane, I Liyang Village
P.O. Box 504053, Saipan, MP 96950
Tel Nos. (670) 235-8722 (670) 233-1837
Fax Nos. (670) 235-6905 (670) 233-8214

Guam Office
333 South Marine Corps Drive
Tamuning, Guam 96913
Tel Nos. (671) 646-5044 (671) 472-2680
Fax Nos. (671) 646-5045 (671) 472-2686

Palau Office
PO Box 1266
Koror, PW 96940
Tel Nos. (680) 488-8615
Fax Nos. (680) 488-8616

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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.

Burger Comer & Associates

Saipan, MP
July 31, 2026

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
Micronesian Legal Services Corporation

Report on Compliance for LSC Funds

Opinion on Each Major Federal Program

We have audited the Micronesian 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, 2025. 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, 2025.

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 Micronesian 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 Micronesian 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 2025-001, 2025-002.

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 deficiency in compliance described in the accompanying schedule of findings and questioned costs as item 2025-001 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, 2025, and have issued our report thereon dated July 31, 2026, 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.

Burger Comer & Associates

Saipan, MP
July 31, 2026

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

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2025

Federal Grantor/ Pass- Through Grantor's Program Title	AL Number LSC Code and Recipient Number	Amounts Passed Through to Subrecipients	Expenses
Legal Services Corporation			
Direct Program:			
Basic Field Grant	09.952000	$ -	2,223,505
Disaster Grant		-	148,203
Total Expenditures of Federal Awards		$ -	2,371,708

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, 2025. 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, 2025

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 __x__ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ yes _x_ none reported
Noncompliance material to financial statements noted?	____ yes __x__ no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ yes ___x__ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	__x__ 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)?	__x__ yes ____ no

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

Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2025

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	$ 2,223,505
	Disaster Grant	148,203
Total Federal Expenditures-Major Program		$ 2,371,708

Percentage of total federal awards tested	100%
Dollar threshold used to distinguish between Type A and Type B programs	$ 1,000,000

Auditee qualified as low-risk auditee ______ yes __x__ no

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

None

SECTION III – Findings and Questioned Costs relating to Federal Awards

Finding 2025-001 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:	2025
Repeat Finding From Prior Audit?	Yes
Finding Type:	Significant deficiency

Criteria:

Section 3.6.2 of the LSC Financial Guide requires recipients to perform and document a physical inventory of all capital assets recorded in the property subsidiary ledger at least once every two years. The inventory should include a physical count of assets, reconciliation of the physical count to the property subsidiary ledger, investigation and resolution of discrepancies, and appropriate approval and documentation for asset disposals or write-offs. Documentation should include the date of the inventory, personnel performing the count, evidence of supervisory review, and reconciliation of differences identified during the inventory process.

Condition:

During the 2025 audit, management represented that a physical inventory of capital assets was performed during 2024. However, MLSC was unable to provide sufficient documentation to support that the inventory was properly completed in accordance with the LSC Financial Guide.

Specifically, we noted the following:

- Documentation supporting the physical inventory performed in 2024 was incomplete and did not identify the personnel who performed the inventory, the date of the physical count, or evidence of supervisory review.
- The results of the physical inventory were not reconciled to the property subsidiary ledger, and no documentation was available showing that discrepancies, if any, were investigated and resolved.

Finding 2025-001 LSC Financial Guide § 3.6.2 Physical Inventory, continued

- Documentation supporting asset disposals or write-offs, including management approval, was not available.
- Several assets on the fixed asset listing were identified as damaged, inactive, or no longer in service; however, no supporting documentation was maintained to demonstrate that these assets had been evaluated for disposal or removed from the accounting records where appropriate.

As a result, we were unable to determine whether the physical inventory performed in 2024 was complete or accurate, or whether the property records accurately reflected the capital assets owned by MLSC as of December 31, 2025.

Cause :

MLSC did not establish adequate procedures to document the physical inventory process or reconcile the results of the physical inventory to the property subsidiary ledger as required by the LSC Financial Guide. In addition, management did not maintain sufficient documentation to support asset disposals, write-offs, and supervisory review of the inventory process.

Effect:

Failure to properly perform, reconcile, and document the required physical inventory results in noncompliance with LSC Financial Guide § 3.6.2. Without a reliable and documented physical inventory, MLSC cannot adequately demonstrate the existence, completeness, and accuracy of its capital assets. This increases the risk that capital assets may be misstated, lost, stolen, damaged, or improperly disposed of without timely detection and appropriate accounting treatment.

Recommendation:

MLSC should strengthen its capital asset inventory procedures to ensure compliance with LSC Financial Guide § 3.6.2. At a minimum, management should:

- Perform and document a complete physical inventory of capital assets at least once every two years.
- Reconcile the physical inventory results to the property subsidiary ledger and investigate and resolve all differences.
- Maintain documentation identifying the date of the inventory, personnel performing the count, evidence of supervisory review, and reconciliation procedures performed.
- Maintain written approval and supporting documentation for all asset disposals and write-offs.

Finding 2025-001 LSC Financial Guide § 3.6.2 Physical Inventory, continued

Management's Response and Corrective Action Plan:

MLSC acknowledges the finding and concurs in part. In response to 2024 audit, MSLC committed to completing a future physical inventory in accordance with the corrective action plan with an expected completion date of June 30, 2026, to include the date of the count, signature of the personnel conducting the inventory, reviewer and proper documentation for any write-offs or disposals, and reconciliation with the subsidiary ledger.

The physical inventory was initiated in accordance with the corrective action plan. However, implementation was significantly disrupted by two severe typhoons that impacted the island in April and early of July 2026. These events resulted in prolonged office closures, and the temporary suspension of normal operations, preventing completion of the inventory within the planned timeframe.

To date, one office has completed its physical inventory, signed by the person who conducted the inventory and the reviewer, and reconciliation of the physical inventory results to the property subsidiary ledger is currently underway.

Responsible person: Chief Fiscal Officer, Jocelyn Mallari

Corrective action planned**:** Complete the physical inventory of all offices; reconcile inventory results to the property subsidiary ledger; investigate any discrepancies identified, resolved and ensure all required inventory documentation is complete, including supervisory review and approvals, is maintained. Assets determined to be missing, obsolete, or no longer in service will be processed in accordance with MLSC's property management procedures and the Financial Guide.

Anticipated completion date**:** August 31, 2026.

Finding 2025-002 LSC Compliance 45 C.F.R Part 1629 bond insurance

Grantor:	Legal Services Corporation
Program Name:	Legal Services Corporation Basic Field Grant
CFDA No.:	09.952000
Award No.:	Basic Field Grant
Award Year:	2025
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Criteria:

Pursuant to 45 C.F.R. Part 1629, recipients of Legal Services Corporation (LSC) funding are required to maintain a fidelity bond or similar insurance covering employees, officers, directors, agents, volunteers, and third-party contractors who handle LSC funds. The required coverage must protect against losses resulting from fraud, dishonesty, theft, embezzlement, forgery, misappropriation, wrongful conversion, willful misapplication, and other fraudulent or dishonest acts.

In accordance with 45 C.F.R. § 1629.6, recipients are required to maintain fidelity bond or similar insurance coverage in an amount of not less than ten percent (10%) of the recipient's annualized LSC funding for the preceding year. The LSC Financial Guide also recommends that the Board of Directors annually review and ratify the organization's fidelity bond or similar insurance coverage.

Condition:

During our audit, we noted that MLSC's fidelity bond (or similar insurance coverage) expired during 2025 and was not renewed. As a result, MLSC was operating without the fidelity bond or similar insurance required under 45 C.F.R. Part 1629.

Management informed us that it made numerous attempts to obtain replacement coverage by contacting multiple insurance providers within the Commonwealth of the Northern Mariana Islands. However, insurance carriers were either unwilling or unable to provide the required fidelity bond or similar insurance coverage. As of the date of our audit report, MLSC had not been able to secure the required coverage despite its documented efforts.

Finding 2025-002 LSC Compliance 45 C.F.R Part 1629 bond insurance, continued

Cause :

The required fidelity bond or similar insurance was unavailable from insurance carriers contacted by MLSC. Although management made reasonable and documented efforts to obtain the required coverage, no insurer was willing or able to issue a policy meeting the requirements of 45 C.F.R. Part 1629.

Effect:

MLSC was not in compliance with the fidelity bond insurance requirements established by 45 C.F.R. Part 1629 during the period in which coverage was unavailable. Without the required fidelity bond or similar insurance, MLSC is exposed to an increased risk of financial loss resulting from fraudulent or dishonest acts involving individuals who handle LSC funds. In addition, continued noncompliance could result in findings by the Legal Services Corporation or other oversight agencies.

Recommendation:

MLSC should continue its efforts to obtain fidelity bond or similar insurance that complies with 45 C.F.R. Part 1629. Management should maintain documentation of all communications with insurance providers, including applications, quotations, declinations, and other correspondence demonstrating its efforts to obtain the required coverage.

If coverage remains unavailable, MLSC should promptly notify the Legal Services Corporation in writing of the circumstances, provide documentation of its efforts to obtain coverage, and request guidance regarding acceptable alternative risk mitigation measures or other actions necessary to address the regulatory requirement.

Finding 2025-002 LSC Compliance 45 C.F.R Part 1629 bond insurance, continued

Management's Response and Corrective Action Plan:

MLSC concurs with the finding. The required commercial crime/fidelity bond insurance expired on November 27, 2024, after the insurance carrier declined to renew the policy due to a pending insurance claim. Since that time, MLSC has made continuous efforts to obtain replacement coverage by contacting multiple insurance providers in the CNMI and Guam. Although one insurer offered limited commercial crime coverage, the proposed policy did not satisfy the requirements of 45 C.F.R Part 1629 because it excluded one office and provided substantially lower coverage limits than required. MLSC continued to pursue alternative coverage, including submitting an application through Travelers Casualty and Surety Company for coverage that would meet LSC requirement.

Effective July 1, 2026, MLSC obtained the only fidelity coverage reasonably available in the market, thereby resolving the finding.

Corrective Action Taken

- Secured a fidelity bond effective July 1, 2026
- Maintained documentation of all efforts to obtain replacement coverage during the period coverage was unavailable.
- Continued reporting insurance procurement efforts to the Board of Directors.
- Will continue to pursue broader fidelity coverage as market conditions permit.
- Will monitor renewal date to ensure timely renewal before expiration and prevent future lapses in coverage.

Responsible Persons: Executive Director, Lee Pliscou

Completion Date: July 1, 2026

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

Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2025

SECTION IV – Prior Audit Findings and Questioned Costs

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2024-001	Financial Management Tasks	Repeated
2020-001	Financial Management Tasks	Resolved

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2024-002	LSC Financial Guide § 3.3 Fund Balance	Resolved
2024-003	LSC Financial Guide § 3.6.1 Capitalized Assets	Resolved
2024-004	Part 1636 Client Identity and Statement of Facts	Resolved
2024-005	LSC Financial Guide § 3.7.1 Cost Allocation	Resolved
2024-006	CSR Handbook § 3.3 Timely Closing of Cases	Resolved
2024-007	§ 2.1.1 a. General Accounting Controls	Resolved
2024-008	§ 2.5.3 Electronic Data Processing	Resolved
2024-009	§ 3.2.1 Bank accounts	Resolved
2024-010	§ 3.2.4 Cash Disbursements	Resolved
2024-011	§ 3.2.5 Petty Cash	Resolved
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

MICRONESIAN LEGAL SERVICES CORPORATION
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Schedule of Findings and Questioned Costs
For The Year Ended December 31, 2025

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, 2025:

Questioned costs as previously reported	$ -
Questioned costs of fiscal year 2025 Single Audit	-
Unresolved questioned costs at December 31, 2025	$ -