Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

i. Expense Allocation - Statement of Activities and Statement of Functional Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In most cases, these costs are identifiable based on the nature of the expense and the job description of the person performing the function. Expenses specifically identifiable to a function are charged directly to that function. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of CALSC.

There are some cases where the person performing the duty is involved in both program activities and management and general type functions. In those cases, time sheets are used to allocate personnel and fringe benefit costs to various functions. There are also cases where operational expenses benefit both program activities and general operations. In those cases management has allocated costs as follows:

- Space and occupancy costs are allocated on the basis of square footage.
- Depreciation is allocated on the basis of usage of the furniture and equipment.
- Management has made percentage estimates of consumption or usage by personnel classified as program related versus administrative for expenses, such as; office consumables; equipment maintenance, repairs and rental; telephone; insurance; and other normal operating costs.

STATEMENT OF CASH FLOWS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

For the Year Ended December 31, 1996

(With Summarized Financial Information for the Year Ended December 31, 1995)

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase(decrease) in net assets	$ 92,606	$ 333,295
Adjustments to reconcile change in net assets to net cash provided(used) by operating activities:		
Depreciation and amortization	36,622	36,027
Write off of leasehold improvements	1,738	-
(Increase) decrease in operating assets:		
Receivables	(18,617)	(1,409)
Other receivables	(2,712)	636
Travel advances	(680)	1,960
Advances to cafeteria plan	315	815
Prepaid expenses	(3,668)	3,744
Unconditional promises to give	(45,350)	26,400
Client escrow funds	(2,031)	(4,813)
Deposits	-	(30)
(Decrease) increase in operating liabilities:		
Accounts payable	(2,730)	(36,726)
Payroll taxes and other withholdings	(11,864)	825
Disallowed costs payable to LSC	816	-
Deferred support	-	(276,064)
Accrued annual leave	13,034	(6,425)
Client trust funds deposited	2,031	4,813
Lawsuit damages	-	(150,000)
Net cash provided from (used by) operating activities	59,510	(66,952)
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Purchases of furniture and equipment	(61,653)	(13,538)
Net cash provided from (used by) investing activities	(61,653)	(13,538)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Proceeds from capital lease obligation	30,547	-
Principal payments on capital lease obligations	(10,727)	(8,668)
Principal payments on long-term debt	(7,267)	(7,267)
Net cash provided from (used by) financing activities	12,553	(15,935)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,410	(96,425)
CASH AND CASH EQUIVALENTS		
Beginning of year	94,857	191,282
End of year	$ 105,267	$ 94,857

(Statement of Cash Flows is continued on the next page)

See notes to financial statements

STATEMENT OF CASH FLOWS
(continued)

	1996	1995
SUPPLEMENTAL DISCLOSURES:		
Interest expense paid	$ 4,051	$ 6,155
Interest income received	4,820	3,086
Noncash Transactions:		
Write off of leasehold improvements	1,738	-
Acquisition of telephone system with capital lease	30,547	-

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1996

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

Capital Area Legal Services Corporation (CALSC) is a private, non-membership, nonprofit corporation organized for the purpose of providing legal assistance in noncriminal proceedings to persons financially unable to afford legal assistance or to employ attorneys. CALSC is primarily funded through a grant from the Legal Services Corporation (LSC), a nonprofit corporation established by Congress to administer a national legal assistance program. CALSC also receives funds from other "non-LSC" sources that allows it to expand its basic legal assistance program and provide elderly protective services. See Note 5 to these financial statements for more detailed information about CALSC's activities.

b. Basis of Accounting and Presentation

The financial statements have been prepared on an accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Non-Profit Organizations." Under SFAS No. 117, Capital Area Legal Services is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

b. Basis of Accounting and Presentation - (continued)

CALSC has also followed the accounting portions of the "Audit and Accounting Guide for Recipients and Auditors" issued by Legal Services Corporation in 1976, revised 1981, when preparing these financial statements. However, in cases where accounting pronouncements issued by the FASB subsequent to the issuance of LSC's audit and accounting guide differ from LSC's guide, CALSC has followed the accounting pronouncements to comply with generally accepted accounting principles.

c. Recognition of LSC Grant Support and Net Assets

CALSC recognizes grant funds from LSC as support on a straight-line basis over the grant period. Funds remaining unexpended at the end of an accounting period are reflected as temporarily restricted net assets provided such amount is within 10% of the annualized LSC support. In accordance with LSC regulations, CALSC may retain net assets equal to 10% of its annualized LSC support for use in future periods without prior LSC approval. LSC may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by CALSC with the terms of its grant award. In addition, all unexpended funds are to be returned to LSC if CALSC terminates its LSC activities.

d. Recognition of Non-LSC Restricted and Unrestricted Support and Revenue

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. This method of revenue recognition was used for support received from the Louisiana Bar Foundation (LBF) and local bar associations.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

d. Recognition of Non-LSC Restricted and Unrestricted Support and Revenue - (continued)

CALSC also received program service fees and grant revenues in exchange for services provided. Program services fees are earned based upon providing legal services at pre-established rates and are recognized as unrestricted revenue in the period when the units or services were provided.

Grant revenues are recognized as unrestricted revenue when allowable costs are incurred to provide the services as provided for under the terms of the grant agreement. This method of revenue recognition was used for grants received from the Capital Area Agency on Aging for Elderly Protective Services(EPS), parish councils, and police juries.

e. Property and Equipment

Property and equipment purchases are recorded at cost. Property and equipment acquired with LSC funds are considered to be owned by CALSC while used in the program or in future authorized programs. LSC retains a reversionary interest in any assets acquired with LSC funds as well as the right to determine the use of any proceeds from the sale of such assets.

CALSC follows the practice of capitalizing all expenditures for property and equipment in excess of $100. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets which range from five to ten years. Leasehold improvements are amortized on a straight-line basis over five years. Depreciation and amortization expenses have been presented together as a single line item in the Statement of Cash Flows.

Donations of property and equipment are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

e. Property and Equipment - (continued)

restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CALSC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CALSC reclassifies temporarily restricted assets to unrestricted net assets at that time. CALSC did not receive any donated fixed assets in 1996 or any previous year.

As of December 31, 1996, property and equipment on the balance sheet includes $68,112 of assets which are currently being acquired by CALSC under a capital lease agreement. Amortization expense for these assets acquired under capital lease was $8,022 for 1996. This amount has been included in the total depreciation and amortization expense of $36,622 on the financial statements. The accumulated amortization of assets acquired by capital lease was $24,926 as of December 31, 1996.

f. Law Library

CALSC capitalizes the initial cost of books, reference materials and multiple-volume sets of law books. CALSC estimates that the salvage value of its law library approximates its original cost because the law library is maintained on a current basis, and accordingly, depreciation expense is not recorded. The costs of maintaining reference materials on a current basis are expensed in the period incurred. LSC retains a reversionary interest in the law library.

g. Donated Services

Only amounts which have been objectively determined are reflected in the financial statements as donated services. Corresponding expenses have been recorded as offsets to these contributions so that there will not be any effect on CALSC's net assets. Total donated services recorded by CALSC in the 1996 financial statements was $505,804 as described below. All donated services related to CALSC's legal assistance program.

Note 7 - LEASE COMMITMENTS - (continued)

Future minimum payments by year and in the aggregate, under this capital lease are as follows at December 31:

Year Ending 12/31	
1997	$ 8,612
1998	8,612
1999	8,612
2000	8,612
2001	7,893
	42,341
Less imputed interest	(12,144)
Present value of net minimum lease payments	$30,197

Note 8 - PRIVATE ATTORNEY INVOLVEMENT

CALSC is required to devote at least 12 1/2% of its basic LSC grant for private attorney involvement (PAI). CALSC charges the salaries and related benefits of individuals working directly for PAI and amounts paid to private attorneys to the PAI program. Also, other costs directly related to the program, such as; PAI staff training and travel, are charged directly to the program. Costs that are indirectly related are allocated to the program using a ratio of PAI direct labor hours for the period divided by total labor hours for the period times the total common costs. The indirect cost allocation to this program is done monthly. Approximately 4.9% of all indirect costs incurred during the year were allocated to PAI.

CALSC has an agreement with the Baton Rouge Bar Foundation to provide administrative services to monitor the pro bono portion of CALSC's PAI program. Subgrantee costs under the agreement totaled $38,000 in 1996.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

g. Donated Services - (continued)

- CALSC also received an in-kind rent reduction for its Donaldsonville office in 1996 and for future years. In 1996, the rent reduction was $75 for three months, and beginning January 1, 1997, and continuing for five years, the rent reduction is $50 per month. As a result, CALSC has recorded $3,225 as temporarily restricted donated services in 1996 relating to the in-kind value of this lease. CALSC has also recognized $225 as net assets which have been released from a time restriction relating to the Donaldsonville office in 1996.

Donated services that were not recorded as 1996 contributions were as follows:

- CALSC was not charged for the entire year for using the land upon which its office in Jackson, LA is located. Management estimates the value of this donation to be $720 for 1996 but has not recognized any amount for donated services in the financial statements because it did not meet the criteria for recognition under SFAS No. 116.

h. Statement of Cash Flows

For purposes of the Statement of Cash Flows, CALSC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Client funds escrowed to pay for case expenses are not treated as cash for purposes of the Statement of Cash Flows.

STATEMENT OF ACTIVITIES

Capital Area Legal Services Corporation
Baton Rouge, Louisiana
For the Year Ended December 31, 1996

(With summarized financial information for the year ended December 31, 1995)

	Unrestricted	Temporarily Restricted	1996	1995
SUPPORT AND OTHER REVENUE				
Grants:				
Legal Services Corporation(LSC)	$ -	$ 1,328,312	$1,328,312	$1,641,985
Louisiana Bar Foundation(LBF)	-	78,750	78,750	75,000
Local Bar Associations	-	93,000	93,000	93,000
Capital Area Agency on Aging:				
EPS - Fy 97	58,530	-	58,530	56,942
EPS - Fy 96	53,051	-	53,051	58,337
Loyola School of Law	-	-	-	2,000
St. James Parish Council	5,800	-	5,800	8,200
Iberville Police Jury	5,800	-	5,800	2,900
Ascension Parish Council	2,905	-	2,905	-
Public support:				
Kiwanis Club	300	-	300	-
Program services fees:				
Various Councils on Aging	14,870	-	14,870	14,113
Capital Area Agency on Aging	11,684	-	11,684	11,110
Department of Corrections	8,800	-	8,800	9,500
Interest income	4,820	-	4,820	3,086
Other revenue:				
Court awarded attorney fee	750	-	750	250
EPS-FY 95 - Miscellaneous fee	-	-	-	16
EPS-FY 96 - Miscellaneous fee	-	-	-	284
IRS Penalty Refunds	-	-	-	19,833
Subrental Income - Donaldsonville Office	-	-	-	650
Vending Machine Commissions	282	-	282	335
Donated services	439,579	66,225	505,804	339,552
Net Assets released from restrictions:				
Satisfaction of program restrictions:				
LSC	1,294,504	(1,294,504)	-	-
LBF	78,750	(78,750)	-	-
Local Bar Associations	93,000	(93,000)	-	-
Satisfaction of time restrictions	20,875	(20,875)	-	-
Total revenue and other support	2,094,300	79,158	2,173,458	2,337,093
EXPENSES				
Program Services:				
Legal assistance	1,657,428	-	1,657,428	1,602,299
Elderly Protective Services	118,251	-	118,251	117,978
Supporting Services:				
Management and general	305,173	-	305,173	283,521
Total expenses	2,080,852	-	2,080,852	2,003,798
CHANGE IN NET ASSETS	13,448	79,158	92,606	333,295
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	124,266	50,885	175,151	(158,144)
NET ASSETS AT END OF YEAR	$ 137,714	$ 130,043	$ 267,757	$ 175,151

See notes to financial statements

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

i. Expense Allocation - Statement of Activities and Statement of Functional Expenses

Expenses which are incurred to carry out the objectives of the grant which paid them are charged directly to that grant. Expenses that are not directly chargeable to a grant are allocated using budgets, formulas, and estimates by management. The primary method of allocating costs is using a direct labor-hour ratio. This method is used to allocate costs to the private attorney involvement (PAI) program within the grant provided by LSC.

There are some cases where direct costs relating to a non-LSC grant may exceed the total grant award. In those cases any excess costs that were initially allocated to the non-LSC grant are reclassified to the LSC grant either as basic costs or PAI costs. CALSC is able to do this because the nature of the costs is such that they are also allowable costs under the LSC grant award.

j. Income Taxes

CALSC is exempt from corporate income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, CALSC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified by the Internal Revenue Service as an entity which is not a private foundation under section 509(a)(2).

k. Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates were made during the year by management which might affect these financial statements as follows:

- Final outcome of lawsuits involving CALSC as the defendant;
- Allocations of certain operating costs between program activities and management and general functions; and,

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

k. Management's Use of Estimates - (continued)

- Depreciable lives of fixed assets.

l. Restrictions on Cash and Cash Equivalents

There are restrictions on how CALSC can use some of the cash it receives. This is particularly true for funds received from LSC and the Louisiana Bar Foundation (IOLTA Program). Both LSC and LBF require their funds to be deposited in separate bank accounts. CALSC has complied by depositing LSC funds in Liberty Bank and LBF funds into City National Bank. As funds are needed to pay expenses relating to these programs, CALSC transfers the money from the separate accounts to a general operating account from which it pay its bills. As of December 31, 1996, CALSC had spent all funds received from the LBF whereas $69,293 were unspent from the LSC program.

Client Trust funds are restricted and have been deposited into separate bank accounts. See Note 4 to these financial statements.

Note 2 - COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain summarized comparative information for the year 1995 in total but not by net asset class. In addition, the summarized 1995 comparative information is not supported by required footnote disclosures. As a result, the 1995 comparative information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CALSC's financial statements for the year ended December 31, 1995, from which the summarized information was derived.

Note 3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 1996, represent receivables relating to the rent differential on the lease of the Baton Rouge and Donaldsonville offices. The rent differential is the difference in what the lessor and CALSC have agreed is the fair market value and what is actually being charged CALSC to rent these offices each month over the term of the lease. Note 1g to these financial statements presents additional details about these leases.

The amount of unconditional promises to give by year and in the aggregate for the next five years is as follows:

Year	Baton Rouge Office	Donaldsonville Office	Total
1997	$ 12,600	$ 600	$ 13,200
1998	12,600	600	13,200
1999	12,600	600	13,200
2000	12,600	600	13,200
2001	7,350	600	7,950
	$ 57,750	$ 3,000	$ 60,750

Note 4 - CLIENT TRUST FUNDS

CALSC maintains two separate interest-bearing bank accounts for the receiving and disbursing of funds on behalf of its clients. These funds are restricted as to use. They can only be used to pay for case costs relating to the specific case for which the client gave CALSC the money.

One of these accounts is considered active and CALSC has presented this cash as a current asset. The other account has been inactive for many years, accordingly, it has been presented as an other asset with a corresponding credit to long-term liabilities on the Statement of Financial Position.

The balances of the trust asset and liability accounts on CALSC's books are equal to each other and include interest earned on such funds. As of December 31, 1996, $50 of interest income earned on these balances had not been remitted to the Louisiana Bar Foundation in accordance with Louisiana's IOLTA program.

Note 5 - GRANT SUPPORT AND NATURE OF ACTIVITIES

CALSC is funded primarily through a grant from the Legal Services Corporation. The LSC grant funds are restricted for purposes authorized under the LSC Act of 1974, as amended. The primary purpose of the LSC grant is to provide legal assistance to poor people in designated parishes within the State of Louisiana.

The LSC grant activity for 1996 was as follows:

LSC Recipient No. 619010
LSC Grant Action No. 960001

LSC Basic Grant Award	$1,328,312 (*)

(*) includes $24,677 of escrowed funds from 1994.

Funds provided by LSC are recorded as revenue by CALSC as received. LSC does not place any restrictions requiring expenses to be incurred before revenue recognition occurs.

During 1996 CALSC received support in the form of grants from sources other than LSC as follows:

- The Louisiana Bar Foundation provided $78,750 of IOLTA funds to pay for costs associated with expanding legal services to poor people in non-urban areas around Baton Rouge, Louisiana.

- Six different bar associations provided grants of $15,500 each to pay for costs associated with serving poor people within their respective JDBs.

- The Capital Area Agency on Aging - District II, Inc. (CAAA) contracted with CALSC to provide elderly protective services, which consist primarily of follow-up services in cases where abusive situations have been reported, to people age 60 or older in Baton Rouge and 7 surrounding parishes. The CAAA contracts operate on a June 30 year end. The contract amounts for the years ended June 30, 1996 and 1995 were $113,388 and $111,388, respectively.

Note 5 - GRANT SUPPORT AND NATURE OF ACTIVITIES - (continued)

- The St. James Parish Council awarded CALSC a grant for $5,800 to provide legal services to poor people in St. James Parish.
- The Iberville Parish Police Jury awarded CALSC a $5,800 grant to provide legal services to poor people in Iberville Parish.
- The Ascension Parish Council awarded CALSC a grant for $2,905 to provide legal services to poor people in Ascension Parish.

The CALSC recognizes revenues under the above non-LSC grants or contracts to the extent eligible costs are incurred. Any funds not spent by CALSC for allowable program costs must be returned to the grantor unless a special waiver is obtained.

Note 6 - LONG-TERM DEBT

At December 31, 1996, long-term debt consisted of the following note payable to City National Bank:

Amount Borrowed	Date Due	Monthly Payment	Interest Rate	Unpaid At 12-31-96
$21,800	10-10-97	$787.28	10.25%	$6,055

The loan is secured by several items of computer equipment.

Note 7 - LEASE COMMITMENTS

CALSC leases office space for its operations in Baton Rouge, Houma, and Donaldsonville. The following is a summary of minimum rental payments under operating lease agreements for the next five years.

Year	Baton Rouge	Houma	Donaldsonville	Totals
1997	$ 45,000	$ 8,400	$ 6,000	$ 59,400
1998	45,000	-	6,000	51,000
1999	45,000	-	6,000	51,000
2000	45,000	-	6,000	51,000
2001	26,250	-	6,000	32,250
	$206,250	$ 8,400	$30,000	$244,650

Note 7 - LEASE COMMITMENTS - (continued)

The lease agreements provide that, in the event funding from LSC is eliminated or severely impaired, CALSC may cancel the leases upon providing written notice. The Baton Rouge office lease is cancelable with a 60 day written notice and the Donaldsonville lease is cancelable with a 30 day notice.

Lease expense, excluding the in-kind rent reductions, for office rentals totaled $51,545 during the year.

In accordance with CALSC's agreement with the lessor, CALSC's management renegotiated the monthly lease payment on July 31, 1996, on its Baton Rouge office for five additional years. CALSC's new monthly rent, beginning August 1, 1996, is $3,750 for the lease term which has now been extended until July 31, 2001.

The Houma office lease was renewed only for one year (1997) at a monthly rate of $700. However, upon notifying the lessor on or before October 1, 1997, CALSC may exercise an option to renew the Houma office lease for one additional year at terms to be negotiated between CALSC and the lessor at that time.

CALSC has the option to renew its lease of the Donaldsonville office for five additional years at the end of the initial lease period (December 31, 2001). Notice of CALSC's exercise of this renewal option must be done within 60 days prior to December 31, 2001. Terms of the lease extension will be negotiated at that time.

CALSC has leased land in Jackson, Louisiana for a trailer which it uses to service clients in that area. The lease term is May 1, 1995 to April 30, 2005. There is no charge for rent.

Note 7 - LEASE COMMITMENTS - (continued)

During 1993 CALSC entered into a lease-purchase agreement for computer equipment consisting of the following terms:

Monthly Payment	Number of Months	Lease Term	Imputed Interest Rate
$1,089.37	48	8/30/93 - 10/31/97	18.12%

Future minimum payments, by year and in the aggregate, under this capital lease are as follows at December 31,

Year Ending Dec. 31	Amount
1997	$ 9,805
Total minimum lease payments remaining	
Less imputed interest	(702)
Present value of net minimum lease payments	$ 9,103

In December, 1996, CALSC entered into a lease purchase agreement for a telephone system consisting of the following terms:

Monthly Payment	Number of Months	Lease Term	Imputed Interest Rate
$717.65	60	12/16/96 - 12/16/01	14.43%

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

g. Donated Services - (continued)

- CALSC received professional legal services donated by private attorneys participating in the pro bono program, which is monitored for CALSC by the Baton Rouge Bar Foundation (BRBF). Management has accepted BRBF's value of $369,275 for these donated services for 1996 under this program. BRBF has a system in place to track the hours donated and multiply them using a standard rate of $100 per hour or a rate provided by the attorney who donated the service.

- There was a paralegal who donated her services to CALSC during 1996. Time sheets were kept by her to allow management to value her services. Management has valued the total of her donated services at $976.

- CALSC also received donated services from attorneys who participated in the PAI program. These attorneys charged reduced or flat rates for services rather than standard rates thereby creating a contribution to CALSC. The rate differences were documented by CALSC's staff and computed on an aggregate basis to be $69,328.

- Until August, 1, 1996, CALSC rented its Baton Rouge office for $2,600/month whereas the fair market value was $4,800/month as stated in its lease. Beginning August 1, 1996, CALSC's monthly payment increased to $3,750/month thereby reducing the differential to $1,050/month. The lease on the Baton Rouge office was extended until July 31, 2001. As a result, CALSC has recorded $63,000 as temporarily restricted donated services in 1996 relating to the in-kind value of the lease extension. CALSC has also recognized $20,650 as net assets which have been released from a time restriction relating to the Baton Rouge office in 1996.

I performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that I considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of Capital Area Legal Service Corporation's major federal award programs, which are identified in the accompanying Schedule of Federal Awards. My procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, I do not express such an opinion.

My consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal award program may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. I noted no matters involving the internal control structure and its operations that I consider to be material weaknesses as defined above.

However, I noted certain matters involving the internal control structure and its operation that I have reported to CALSC's management and discussed on pages 52 to 57 of this report.

This report is intended for the information of CALSC's board of directors and management, Legal Services Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Neil B. Ferrari, CPA

Baton Rouge, Louisiana
April 4, 1997.

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Baton Rouge, Louisiana

December 31, 1996

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INDEPENDENT AUDITOR'S COMBINED REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the accompanying statement of financial position of Capital Area Legal Services Corporation (a nonprofit corporation) as of December 31, 1996, and the related statements of activities, functional expenses, cash flows for the year then ended. These financial statements are the responsibility of Capital Area Legal Services Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Area Legal Services Corporation as of December 31, 1996, and the changes in its net assets and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report (see page 3) dated April 4, 1997, on my consideration of Capital Area Legal Services Corporation's internal control structure and a report (see page 8) dated April 4, 1997, on its compliance with laws and regulations.

My audit was made for the purpose of forming an opinion on the financial statements of Capital Area Legal Services Corporation taken as a whole. The accompanying schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Neil G. Ferrari, CPA

Baton Rouge, Louisiana
April 4, 1997.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the financial statements of Capital Area Legal Services Corporation (a nonprofit corporation) as of and for the year ended December 31, 1996, and have issued my report thereon dated April 4, 1997.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Capital Area Legal Services Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the financial statements of Capital Area Legal Services Corporation, for the year ended December 31, 1996, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my

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CAPITAL AREA LEGAL SERVICES CORPORATION
Baton Rouge, Louisiana

Financial Statements

December 31, 1996

auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above.

However, I noted certain matters involving the internal control structure and its operation that I have reported to CALSC's management and discussed on pages 52 to 57 of this report.

This report is intended for the information of CALSC's board of directors and management, Legal Services Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Neil B. Ferrari, CPA

Baton Rouge, Louisiana
April 4, 1997.

STATEMENT OF FUNCTIONAL EXPENSES – (continued)

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

For the year ended December 31, 1996

(With summarized financial information for the year ended December 31, 1995)

	Program Services		Supporting Services		
	Legal Assistance	Elderly Protective Services	Management and General	1996	1995
Library additions and subscription renewals	21,877	–	–	21,877	13,746
Audit and other CPA fees	–	500	14,080	14,580	17,190
Computer consultants and payroll services	6,730	–	6,146	12,876	7,183
Other consultant fees	–	–	–	–	122
Dues and memberships	1,800	–	4,538	6,338	6,562
Litigation	579	–	1,150	1,729	3,302
Bank charges	–	–	1,877	1,877	3,651
Interest:					
Capital leases	–	–	3,063	3,063	4,338
Bank note	–	–	1,041	1,041	1,793
Other	–	–	186	186	24
Staff and board meetings	–	–	308	308	745
Penalties	–	–	156	156	905
Miscellaneous	1,049	50	183	1,282	45
Depreciation and amortization	28,686	1,837	6,099	36,622	36,027
Write off of leasehold improvements	1,738	–	–	1,738	–
Costs disallowed by LSC	–	–	816	816	–
Donated services:					
Attorney and paralegal services	439,510	–	–	439,510	338,403
Employee benefits	70	–	–	70	1,149
Rent	17,117	–	3,758	20,875	26,400
Total expenses	$ 1,657,428	$ 118,251	$ 305,173	$ 2,080,852	$ 2,003,798

See notes to financial statements

and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, I have classified the significant internal control structure policies and procedures used in administering federal award programs in the following categories:

- Cash
- Client trust funds
- Net assets
- Support, program service fees, revenue and receivables
- Payroll and related liabilities
- Property and equipment
- Expenditures for program and supporting services and accounts payable
- Debt and other liabilities
- Donated materials, facilities, and services
- Governmental financial assistance programs:
    - General requirements
        - Civil rights
        - Political activity
        - Allowable costs/cost principles
        - Administrative requirements
    - Specific requirements
        - Types of services allowed and not allowed
        - Special tests and provisions as set forth in the <u>LSC Audit Guide for Recipients and Auditors</u>

For all of the internal control structure categories listed above, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk.

During the year ended December 31, 1996, Capital Area Legal Services Corporation expended 100% of its total federal awards under one major federal award program.

STATEMENT OF FUNCTIONAL EXPENSES

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

For the year ended December 31, 1996

(With summarized financial information for the year ended December 31, 1995)

	Program Services		Supporting Services		
	Legal Assistance	Elderly Protective Services	Management and General	1996	1995
Salaries and wages:					
Attorney	$ 269,111	$ 6,100	$ 61,525	$ 336,736	$ 398,167
Non–attorney	409,546	80,056	137,538	627,140	635,477
Employee benefits, including payroll taxes	139,786	16,656	23,636	180,078	184,605
Total personnel expenses	818,443	102,812	222,699	1,143,954	1,218,249
Space and occupancy:					
Building rental	43,684	1,560	8,319	53,563	47,489
Utilities	18,383	–	3,008	21,391	19,719
Janitorial and building maintenance	8,531	–	1,773	10,304	9,502
Equipment rental and maintenance	35,085	129	3,407	38,621	29,603
Office expenses:					
Consumables	20,821	1,051	2,430	24,302	20,640
Postage	7,505	–	834	8,339	10,558
Advertising	1,318	–	–	1,318	440
Legal and paralegal consultants	61,963	–	–	61,963	31,947
Sub–grantee costs – Baton Rouge Bar Foundation	38,000	–	–	38,000	38,015
Telephone	34,133	3,712	4,205	42,050	43,104
Travel	21,289	5,129	6,060	32,478	32,626
Training	14,834	271	5,954	21,059	18,809
Insurance	14,283	1,200	3,083	18,566	21,512

(Statement of Functional Expenses is continued on the next page)

See notes to financial statements

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the financial statements of Capital Area Legal Services Corporation (a nonprofit corporation) as of and for the year ended December 31, 1996, and have issued my report thereon dated April 4, 1997.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Capital Area Legal Services Corporation is the responsibility of Capital Area Legal Services Corporation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Capital Area Legal Services Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, I noted certain immaterial instances of noncompliance that I have reported to CALSC's management and discussed on pages 52 to 57 of this report.

This report is intended for the information of CALSC's board of directors and management, Legal Services Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Neil B. Ferrari, CPA

Baton Rouge, Louisiana
April 4, 1997.

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH GENERAL REQUIREMENTS APPLICABLE
TO FEDERAL AWARD PROGRAMS

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the financial statements of Capital Area Legal Services Corporation (a non-profit corporation) as of and for the year ended December 31, 1996, and have issued my report thereon dated April 4, 1997.

I have applied procedures to test Capital Area Legal Services Corporation's compliance with the following requirements applicable to its federal award programs, which are identified in the accompanying Schedule of Federal Awards, for the year ended December 31, 1996:

- Civil rights
- Political activity
- Allowable costs/cost principles
- Administrative requirements

My procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions and the Compliance Supplement for Audits of LSC Recipients. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Capital Area Legal Services Corporation's compliance with the requirements listed in the preceding paragraph. Accordingly, I do not express such an opinion.

With respect to the items tested, the results of these procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to my attention that caused me to believe that Capital Area Legal Services Corporation had not complied, in all material respects, with those requirements. Also, the results of my procedures did not disclose any immaterial instances of noncompliance with those requirements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AWARDS PROGRAMS

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the financial statements of Capital Area Legal Services Corporation (a non-profit organization) as of and for the year ended December 31, 1996, and have issued my report thereon dated April 4, 1997.

I have also audited Capital Area Legal Services Corporation's compliance with the requirements governing types of services allowed or unallowed and the special tests and provisions set forth in the Compliance Supplement for Audits of LSC Recipients that are applicable to its major federal award program, which is identified in the accompanying Schedule of Federal Awards, for the year ended December 31, 1996. The management of Capital Area Legal Services Corporation is responsible for Capital Area Legal Services Corporation's compliance with those requirements. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, and the LSC Audit Guide for Recipients and Auditors. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to in the second paragraph occurred. An audit includes examining, on a test basis, evidence about the Capital Area Legal Services Corporation's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

STATEMENT OF FINANCIAL POSITION

Capital Area Legal Services Corporation
Baton Rouge, Louisiana
December 31, 1996

(With summarized financial information as of December 31, 1995)

	1996	1995
ASSETS		
CURRENT		
Cash and cash equivalents	$ 105,267	$ 94,857
Grants and contracts receivable	26,529	7,912
Other receivables	3,756	1,044
Advances to cafeteria plan	-	315
Travel advances	680	-
Prepaid expenses	10,686	7,018
Unconditional promises to give	13,200	15,400
Cash - client escrow funds	33,359	31,288
Total current assets	193,477	157,834
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	359,650	297,997
Leasehold improvements	633	4,808
Law library	38,557	38,557
Accumulated depreciation and amortization	(234,405)	(200,220)
Net property and equipment	164,435	141,142
OTHER		
Unconditional promises to give	47,550	-
Deposits	2,230	2,230
Cash - client escrow funds	18,826	18,866
Total other assets	68,606	21,096
Total assets	$ 426,518	$ 320,072
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 13,614	$ 16,344
Payroll taxes and other withholdings	3,720	15,584
Disallowed costs payable to LSC	816	-
Current maturities of:		
Capital lease obligations	13,650	10,376
Long-term debt	6,055	7,407
Accrued annual leave	43,071	30,037
Client trust funds deposited	33,359	31,288
Total current liabilities	114,285	111,036

(Statement of Financial Position continued on next page)

See notes to financial statements

STATEMENT OF FINANCIAL POSITION - (continued)

	1996	1995
LONG-TERM DEBT, less current portion	-	5,915
OBLIGATIONS UNDER CAPITAL LEASE, less current portion	25,650	9,104
CLIENT TRUST FUNDS DEPOSITED	18,826	18,866
Total liabilities	158,761	144,921
NET ASSETS		
Unrestricted	137,714	124,266
Temporarily restricted	130,043	50,885
Total net assets	267,757	175,151
Total liabilities and net assets	$ 426,518	$320,072

See notes to financial statements

The results of my audit did not disclose any immaterial instances of noncompliance with the requirements referred to in the second paragraph.

In my opinion, Capital Area Legal Services Corporation complied, in all material respects, with the specific requirements referred to in the second paragraph that are applicable to its major federal program for the year ended December 31, 1996.

This report is intended for the information of CALSC's board of directors and management, Legal Services Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Kirk B. Ferrari, CPA

Baton Rouge, Louisiana,
April 4, 1997.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS

To the Board of Directors of
Capital Area Legal Services Corporation

I have audited the financial statements of Capital Area Legal Services Corporation (a nonprofit corporation) as of and for the year ended December 31, 1996, and have issued my report thereon dated April 4, 1997. I have also audited the compliance of Capital Area Legal Services Corporation with requirements applicable to its major federal award program and have issued my report thereon dated April 4, 1997.

I conducted my audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions, and the LSC Audit Guide for Recipients and Auditors. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether Capital Area Legal Services Corporation complied with laws and regulations, noncompliance with which would be material to a major federal award program.

In planning and performing my audit for the year ended December 31, 1996, I considered the internal control structure of Capital Area Legal Services Corporation in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements of Capital Area Legal Services Corporation and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses my consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal award programs. I have addressed internal control structure policies and procedures relevant to my audit of the financial statements in a separate report dated April 4, 1997 (see page 3).

The management of Capital Area Legal Services Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies

3. There are several benefits that CALSC provides to its employees which the employees have to pay out of their paychecks or via the cafeteria plan. Occasionally, the provider of the benefit will change the cost that the employees have to bear. It is important that CALSC monitor any changes made by the benefit provider to insure that it does not pay for the increase cost. For example, changes in age may require an increased rate for life insurance. If the benefit area is not monitored very carefully, then CALSC could inadvertently pay for the increased cost of this benefit without charging the employee.

Corrective Action: Management paid closer attention to this area in 1996 and made adjustments when required.

4. I spoke with Mrs. Crockett regarding the distribution and filing of the purchase orders. I recommended that she maintain a file of numerically sequenced purchase orders. Her second file should be one in which the purchase order is still outstanding or unfilled. Her third file would be one that contains all of the completed purchase orders. The purchase orders which are filled should be stamped "received and checked by ____".

Corrective Action: Mrs. Crockett has begun to keep a numerically sequenced file of purchase orders but has not begun to document when purchase orders are completed. She told me that she has recently purchased a stamp to enable her to mark the purchased merchandise as "received by ________".

Note 10 - IRC SECTION 125 CAFETERIA PLAN

On March 1, 1992, CALSC established an Internal Revenue Code Section 125 Cafeteria Plan with a flexible spending arrangement for its full-time employees. Under the flexible spending arrangement, participants may elect to have a portion of their compensation (salary reduction amounts) contributed (that is, withheld from their wages) to an individual account for the reimbursement of qualifying benefits or personal expenses instead of receiving the amount as compensation. As the qualifying expenses are incurred, they are reimbursed from the account. Neither the amount contributed nor the value of the qualifying benefits is included in the participant's income, because the plan provides that any amount remaining in the account at the end of the plan year will be forfeited by the participant. Types of benefits that can be paid under the plan include health insurance, life insurance, dependent care, and personal medical expenses not covered by health insurance.

Note 11 - FEDERALLY ASSISTED PROGRAMS

CALSC's primary support is from a LSC grant which represents a major federal award program. Accordingly, CALSC's financial statements were audited in accordance, with the Single Audit Act of 1984, OMB Circular A-133, and the LSC Guide for Recipients and Auditors. No costs were questioned by the auditor during the 1996 audit. However, LSC may provide for further examination.

Prior examinations by the Office of Inspector General resulted in $816 of costs being disallowed from a previous year. Those costs will be paid in early 1997 out of CALSC's unrestricted funds.

In accordance with the Single Audit Act of 1984 and the Office of Management and Budget Circular A-133, a Schedule of Federal Awards is presented in the supplementary financial information section of this report.

This report is intended for the information of CALSC's board of directors and management, Legal Services Corporation, and the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Neil B. Ferrari, CPA

Baton Rouge, Louisiana,
April 4, 1997.

IMMATERIAL INSTANCES OF NONCOMPLIANCE (NON-LSC PROGRAMS) - (continued)

OTHER COMMENTS

Finding #1: - (continued)

Management's Response: Management has notified the Executive Committee of the Board of Directors of the dilemma created when LSC would no longer allow its funds to subsidize the EPS grant with supporting revenues. A request to use non-LSC funds for any overrun this year will be presented to the full board on April 24, 1997. This matter has also been discussed with CAAA and they will provide CALSC with an additional one time funding of $1,000 for the grant year ended June 30, 1997. Spending has been reduced as much as possible to avoid an overrun this fiscal year.

Finding #2: - (continued)

Management's Response: Our relationship with IOLTA had been cordial and the grantor has not requested written requests for extensions. A verbal extension was requested by CALSC prior to the January 31, 1997 deadline.

OTHER COMMENTS

Finding #1: The need for operating capital in the EPS Program is continuing to increase. I noted that an additional person was hired in that program during 1996. The salary cost along with related benefits will, according to my analysis, result in the EPS award not being sufficient to cover all of the program costs. There was a slight overrun in cost (about $4,500) for the fiscal year 1996 program. CALSC was fortunate enough to have some unrestricted funds available to absorb the excess costs. Otherwise, LSC funds would have footed the bill and questioned costs would have been reported by me. It is my recommendation that, before June 30, 1997, management project how much cost overrun will be incurred by the fiscal year 1997 EPS Program to insure that it has sufficient funds available to subsidize the extra program costs. This can prevent problems with complying with LSC regulations. In addition, an evaluation of the EPS Program for the next fiscal year needs to be done soon to determine whether or not CALSC can financially handle this program, or take steps to modify the program services to fit within a specified budget, or discontinue the program due to lack of funds. Certainly, these are tough decisions to make but I encourage management to begin analyzing this program's cash needs as soon as possible.

CURRENT YEAR - REPORTABLE CONDITIONS, INSTANCES OF NONCOMPLIANCE AND RECOMMENDATIONS - (continued)

IMMATERIAL INSTANCES OF NONCOMPLIANCE (NON-LSC PROGRAMS)

Finding #1: Last year I noted that there were differences in the final report submitted for EPS and what was recorded on the general ledger. It is important that any final reports be double checked by a person independent of the preparer. The modification of the general ledger as a result of the installation of the new accounting software should make this process easy. It should also eliminate any discrepancies in reporting EPS costs in the future. I encourage management to follow up in 1997 to make sure that the EPS report has been accurately prepared. If you would like for my office to review it prior to submission, I would be glad to help you in this matter.

Management's Response: All reports will be submitted to the Executive Director for his approval prior to submission.

Finding #2: There has also been a problem in submitting reports to the Louisiana Bar Foundation (LBF) for the IOLTA programs within 30 days of the end of the year and submitting budget revisions timely. However, these matters have been worked out in the past. For this year, I recommended during my January fieldwork, that the Louisiana Bar Foundation's director be contacted to request a waiver of the 30 day report deadline. I anticipated having some adjustments to these programs and felt the LBF would prefer to have the most accurate reports possible. The adjustments were not material but made the reports more accurate and prevented amendments from being required at a later date. It is my understanding that this request was orally made and accepted. In my opinion, this departure did not impact the reporting of IOLTA funds significantly and probably facilitated the process. In future years, I recommend that modifications to the written agreement be communicated timely and perhaps documented with a memo or letter to insure that all parties are in agreement.

CURRENT YEAR - REPORTABLE CONDITIONS, INSTANCES OF NONCOMPLIANCE AND RECOMMENDATIONS - (continued)

Finding #5: CALSC banks primarily at City National Bank and I noted at year end that the total of all bank balances at City National Bank exceeded $100,000. The FDIC only insures bank deposits up to $100,000. The law has changed in recent years to permit coverage of only $100,000 per customer. It used to be that you could have several different accounts and be covered up to $100,000 on each of them. This is not the case any more. Any balances greater than $100,000 are technically uninsured and expose CALSC's money to a risk should the bank fail. I encourage Mr. Wayne to contact the bank and determine whether or not collateral can be pledged against any balance over $100,000 or what other options are available to CALSC to eliminate the risk. In addition, there are instances where the cash balance may exceed $100,000 at Liberty Bank but the exposure is for only a brief period of time until the cash is distributed to the City National Bank account. You should also contact Liberty Bank and see what it can do to minimize CALSC's risk in this area.

Management's Response: CALSC has begun to negotiate with various financial institutions to comply. An agreement has been implemented with Liberty Bank, the financial institution which holds LSC monies. The agreement can be activated via phone in a matter of minutes, per Mr. Hebert Orese, Vice President of the Baton Rouge Operations of Liberty Bank.

Finding #6: Last year I made a recommendation concerning the handling of paperwork surrounding purchase orders. Part of that recommendation was implemented in 1996 and it appears that the remainder of that recommendation is being implemented in 1997. I encourage management to follow up to see if the recommendation has been fully implemented.

Management's Response: Management will comply with this recommendation.

CURRENT YEAR - REPORTABLE CONDITIONS, INSTANCES OF NONCOMPLIANCE AND RECOMMENDATIONS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1996

During the 1996 audit, I did not note any reportable conditions or instances of noncompliance, particularly with LSC regulations, that I feel need to be reported. CALSC's management has done a good job of implementing recommendations from prior audits and communicating to its employees the LSC requirements.

There are some minor internal control weaknesses, immaterial instances of noncompliance with non-LSC programs, recommendations, and comments that I want to report to management to allow it the opportunity of improving upon the system that is currently in place. Here are those items:

MINOR INTERNAL CONTROL WEAKNESSES

Finding #1: There are situations whereby certain CALSC's employees work for more than one program. It is important that those employees keep track of how much time they spend on different programs so that their wage and benefit allocations can be made correctly. Because a time management system has been implemented to comply with the LSC requirements, this may provide a more efficient way of tracking the time spent by certain employees compared with the system that was used in prior years. As a result, I recommend adding time codes for the EPS, COA, IOLTA, Police Jury, and other non-LSC programs to enable the accounting department to obtain a printout each month for employees who serve more than just one program. Using the printout, the accounting department can make a journal entry to distribute the wage and benefit costs directly to the programs which are benefited. Codes which parallel the general ledger department numbers might be used in this instance to provide uniformity of accounting throughout CALSC.

Management's Response: This recommendation has been taken under consideration to see if this suggestion is cost effective. Our present payroll service bureau cannot do labor distribution, except by hours. The majority of CALSC's employees are salaried.

EXIT CONFERENCE

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1996

On April 22, 1997 an exit conference was held at the main office of Capital Area Legal Services Corporation in Baton Rouge, Louisiana. Those in attendance were Mr. James Wayne, Executive Director; Reverend Otha Nelson, Chairman, Budget, Audit, and Finance Committee; Arthur Thomas, Leonard Cummings, and Hannah Harrison, members of the Budget, Audit, and Finance Committee; Michael Thomas, Director of Litigation; Mrs. Eva Pratt, Director of Finance/Personnel; George Guillory, Director of Administration; Barbara Crockett, Executive Assistant; and Neil Ferrari, CPA.

The results of the audit were discussed with emphasis upon internal control structure weaknesses, instances of noncompliance and recommendations relating to 1996 and those noted in the previous audit. The findings and recommendations of the auditor were accepted *with favorable reaction by all* CALSC representatives. Management intends to implement the auditor's recommendations.

A separate management letter was not issued by me. All significant findings and related recommendations have been presented in this report. I offered some additional oral recommendations at the exit conference that management acknowledged and said it would consider.

OTHER RECOMMENDATIONS AND REMINDER ITEMS

1. I encouraged management to eliminate any reconciling items in the IOLTA trust accounts. Presently, there are $910 of operating funds in one of the trust accounts which does not relate to any particular client or case. This money needs to be transferred back to the operating account. There is also about $20 of interest income in one account that needs to be remitted to IOLTA. This income has been in this account for about one year. In addition, there are some negative balances that relate to CALSC having disbursed more money on behalf of clients than what the clients had on hand to disburse in the first place. These amounts are not very significant but should be restored. Otherwise, other client funds are being used to pay for case costs of clients which did not have enough money on deposit. One way of curing this situation is to use some of the $910 which the trust account owes back to operating account to eliminate the negative balances. In the future, management should check to see if there are enough funds on hand for a client before disbursing funds to pay for case costs.

Corrective Action: The $910 reconciling item was eliminated using my recommendation. Negative client trust account balances were eliminated.

2. CALSC issues a vacation acknowledgement for each employee to sign and return to the accounting department. This provides an internal confirmation of whether or not the employee agrees with his or her accumulated vacation time. I recommend that the number of hours that have been accumulated be stated on the acknowledgement. Presently, the number of hours is not being written on the acknowledgement.

Corrective Action: My recommendation was implemented during 1996.

PRIOR YEAR FINDINGS - (continued)

Finding #5: THE AMOUNT OF THE FIDELITY BOND WAS BELOW THE REQUIRED LSC AMOUNT

LSC has a requirement that recipients of its funds procure a fidelity bond which provides coverage equal to or greater than 10% of the recipient's annual funding level. CALSC's fidelity bond provided coverage of $150,000 whereas 10% of its 1995 funding level would have required a fidelity bond coverage of approximately $165,000.

Corrective Action: The fidelity bond coverage was increased to $175,000 during 1996. This amount was sufficient to meet LSC's requirement for 1996. The noncompliance has been corrected.

Finding #6: SOME TERMS OF THE GRANT AGREEMENT WITH THE LOUISIANA BAR FOUNDATION WERE NOT COMPLETELY FOLLOWED

CALSC is required within 30 days of termination of the grant to file a final report with the Louisiana Bar Foundation (*LBF*) illustrating how it spent the IOLTA funds that the Bar Foundation granted to CALSC. In addition, CALSC was supposed to request budget amendments in situations where changes in the project budget exceed 10% in any line item, or introduce or eliminate categories of expenditures. These budget revisions were supposed to be submitted and approved prior to the charge.

Corrective Action: The final report for 1996 was not filed by January 31, 1997, because CALSC was waiting on my audit adjustments. I advised CALSC to contact LBF and ask if CALSC could wait for the adjustments to avoid having to file an amended report. This request was orally granted.

Again, there were instances where certain budgeted expenses were exceeded by more than 10%. The budget revisions were not submitted until after the fact. All actual costs were adequately supported. LBF was orally notified that a budget revision would be submitted following the audit adjustments.

SCHEDULE OF SUPPORT, REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - LEGAL SERVICES CORPORATION GRANT

Capital Area Legal Services Corporation
Baton Rouge, Louisiana
For the Year Ended December 31, 1996

	Basic Field Award	Private Attorney Involvement	Total LSC Awards
SUPPORT AND OTHER REVENUES			
Grant from Legal Services Corporation	$1,135,622	$ 192,690	$1,328,312
Interest income	4,031	-	4,031
Attorney fees awarded by judges	750	-	750
Total support and other revenues	1,140,403	192,690	1,333,093
EXPENSES			
Salaries and wages:			
Attorney	283,043	13,243	296,286
Non-attorney	374,659	40,214	414,873
Employee benefits	116,606	16,813	133,419
Total personnel expenses	774,308	70,270	844,578
Space and occupancy:			
Building rental	48,357	3,647	52,004
Utilities	20,343	1,048	21,391
Janitorial and building maintenance	9,799	505	10,304
Equipment rental and maintenance	36,600	1,892	38,492
Office expenses:			
Consumables	21,774	1,191	22,965
Postage	7,930	409	8,339
Advertising	933	64	997
Legal and paralegal consultants	-	61,963	61,963
Sub-grantee costs - Baton Rouge Bar Foundation	-	38,000	38,000
Telephone	35,658	1,879	37,537
Travel	11,201	6,714	17,915
Training	18,876	1,243	20,119
Insurance	16,456	910	17,366
Library additions and subscription renewals	20,805	1,072	21,877
Audit and other CPA fees	12,396	714	13,110
Computer consultants and payroll services	12,245	631	12,876
Dues and memberships	2,111	109	2,220
Litigation	1,261	278	1,539
Bank charges	1,876	-	1,876
Interest expense:			
Capital leases	3,010	-	3,010
Bank note	1,041	-	1,041
Miscellaneous	518	151	669
Total expenses	1,057,498	192,690	1,250,188

Note 12 - ECONOMIC DEPENDENCY

CALSC receives the majority of its revenue from funds provided through grants administered by the Legal Services Corporation (LSC). The grant amounts are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of funds CALSC receives could be reduced significantly and have an adverse impact on its operations.

CALSC's funding from LSC for 1997 is expected to be $1,327,832.

Note 13 - BOARD OF DIRECTORS' COMPENSATION

The Board of Directors is a voluntary board; therefore, no compensation or per diem has been paid to any member. However, board members are reimbursed in accordance with CALSC's travel reimbursement policy when attending meetings on behalf of CALSC.

Note 14 - CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The CALSC maintains its cash balances primarily in one financial institution located in Baton Rouge, Louisiana. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At December 31, 1996, CALSC's uninsured cash balances total $56,634.

Note 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

CALSC has a number of financial instruments, none of which are held for trading purposes. CALSC estimates that the fair value of all financial instruments at December 31, 1996, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

CURRENT YEAR - REPORTABLE CONDITIONS, INSTANCES OF NONCOMPLIANCE AND RECOMMENDATIONS - (continued)

Finding #2:	I recommend eliminating the "99" case code. This code is for miscellaneous cases and CALSC runs the risk of possibly accepting a nonpriority case when such a code is used. I recommend that in all cases, CALSC classify the type of case by a code which specifically describes the nature of the case. This can reduce the risk of accepting unallowable cases.
Management's Response:	This procedure has already been implemented. Effective 1997, case code "99" is no longer used.
Finding #3:	I recommend encouraging each employee to add up his or her total hours on the TMS sheet. In addition, each employee should break down the total hours by department on the timesheet and reconcile the breakdown to the total hours. This can help insure accuracy of time keeping and assist the accounting department in processing this data.
Management's Response:	This procedure is being done. All time sheets are totaled before being entered into the system. With our new timekeeping system, employees must enter actual time worked in quarter hour increments.
Finding #4:	For any cases that are submitted to CALSC's executive director for acceptance due to the case not meeting income eligible limits, I recommend that the director keep a log and note whether the case was accepted or denied. The case number should also be written on any corrspondence surrounding the case so that a reference can be made to it at a later date.
Management's Response:	This procedure has been done. The log is being maintained by the executive director's executive assistant.

SUPPLEMENTARY FINANCIAL INFORMATION

PRIOR YEAR FINDINGS - (continued)

Finding #3: SEPARATE DEPARTMENTS SHOULD BE USED FOR EACH GRANT AWARD OR REVENUE SOURCE

CALSC's current general ledger software cannot accommodate more than ten departments or programs. However, CALSC has more than ten revenue sources for which it needs separate accounting. CALSC has purchased some new software and intends to implement it during 1996. Separate accountability for each grant award or revenue source was not done in 1995 but a separate accounting was made for the Elderly Protective Services grants.

Corrective Action: New accounting software was installed during 1996 and the chart of accounts was modified to accommodate separate accounting by funding source.

INSTANCES OF NONCOMPLIANCE

Finding #4: THE FINAL REPORT FOR THE ELDERLY PROTECTIVE SERVICES PROGRAM FOR GRANT YEAR ENDED JUNE 30, 1995 AND DID NOT AGREE WITH CALSC GENERAL LEDGER

I compared the final report filed with Capital Area Agency (CAA) for the Elderly Protective Services Program's grant year ending June 30, 1995 with the amounts on CALSC's general ledger. The expense amounts did not agree in all cases, even before I had made some year-end adjusting entries.

Corrective Action: This same error recurred in 1996. I contacted CAA and was told, that as long as the total costs were supported and, if the total equaled or exceeded the contract, CALSC did not have to file an amended report. Management believes the design of the new chart of accounts will prevent similar errors in the future.

SCHEDULE OF SUPPORT, REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - LEGAL SERVICES CORPORATION GRANT - (continued)

	Basic Field Award	Private Attorney Involvement	Total LSC Awards
INCREASE IN NET ASSETS FOR 1996	82,905	-	82,905
NET ASSETS AT JANUARY 1, 1996	35,485	-	35,485
OTHER CHANGES IN NET ASSETS DURING THE YEAR			
Property and equipment acquisitions	(31,103)	-	(31,103)
Principal payments on capital leases	(10,727)	-	(10,727)
Principal payments on bank loan	(7,267)	-	(7,267)
NET ASSETS AT December 31, 1996	$ 69,293	$ -	$ 69,293

SCHEDULE OF SUPPORT, REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - IOLTA PRIMARY GRANT

Capital Area Legal Services Corporation
Baton Rouge, Louisiana
For the Year Ended December 31, 1996

SUPPORT AND OTHER REVENUES	
Grant from the Louisiana Bar Foundation	$ 78,750
Total support and other revenues	78,750
EXPENSES	
Salaries and wages:	
Attorney	27,559
Non-attorney	33,802
Employee benefits	13,313
Total personnel expenses	74,674
Office expenses:	
Consumables	64
Travel	2,120
Training	669
Audit fee	970
Bank charges	53
Advertising	200
Total expenses	78,750
CHANGE IN NET ASSETS FOR 1996	-
NET ASSETS (DEFICIT)	
Beginning of year	-
End of year	$ -

Schedule 3

SCHEDULE OF SUPPORT, REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - BAR ASSOCIATION GRANTS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana
For the Year Ended December 31, 1996

	17th JDB	18th JDB	20th JDB	23rd JDB	32nd JDB	40th JDB
SUPPORT AND OTHER REVENUES						
Grant support	$15,500	$15,500	$15,500	$15,500	$15,500	$15,500
Total support and other revenues	15,500	15,500	15,500	15,500	15,500	15,500
EXPENSES						
Salaries and wages:						
Attorney	-	-	-	-	-	-
Non-attorney	11,681	13,700	12,359	13,717	13,700	13,700
Employee benefits	3,231	1,800	1,994	1,783	1,800	1,800
Total personnel expenses	14,912	15,500	14,353	15,500	15,500	15,500
Telephone	-	-	800	-	-	-
Advertising	122	-	-	-	-	-
Travel	466	-	285	-	-	-
Office supplies	-	-	62	-	-	-
Total expenses	15,500	15,500	15,500	15,500	15,500	15,500
CHANGE IN NET ASSETS FOR 1996	-	-	-	-	-	-
NET ASSETS (DEFICIT)						
Beginning of year	-	-	-	-	-	-
End of year	$ -	$ -	$ -	$ -	$ -	$ -

SCHEDULE OF FEDERAL AWARDS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

For the year ended December 31, 1996

Pass Through Agency	Recipient No.	LSC Grant No.	Federal CFDA Number	Program or Award Amount	Grant Revenue Received	Expenditures
Legal Services Corp.	619010	960001	None	$1,328,312	$1,328,312	$1,259,019
Legal Services Corp.	619010	950001	None	1,641,985	-	(*) 35,485
Totals				$2,970,297	$1,328,312	$1,294,504

* Represents money received last year which was carried over to 1996 and spent this year

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
OF THE BATON ROUGE BAR FOUNDATION,
A SUBRECIPIENT OF LSC FUNDS FROM
CAPITAL AREA LEGAL SERVICES CORPORATION

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1996

Cash received from CALSC under sub-grant agreement	$38,000
Cash Disbursements:	
Non-attorney salaries	17,198
Rent	5,400
Printing	4,326
Telephone	2,514
Postage	2,399
Professional fees	1,634
Temporary help	1,378
Utilities	1,189
Office consummables	1,124
Litigation	492
Training	173
Insurance	173
Total cash disbursements	38,000
Cash receipts over(under) cash disbursements	$ -

FINDINGS AND RECOMMENDATIONS - PRIOR YEAR'S AUDIT

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1996

INTERNAL CONTROL WEAKNESSES

Finding #1: THE EMPLOYEE BENEFIT ACCOUNT ON THE GENERAL LEDGER NEEDS TO BE SUBDIVIDED INTO SEVERAL ACCOUNTS TO IMPROVE ACCOUNTABILITY OVER THE COMPONENTS OF THIS ACCOUNT

CALSC has continued to account for its employee benefits within one major expense category. The expense category is titled "employee benefits" and includes benefits, such as; FICA tax, Medicare tax, workmens compensation, long-term disability, state unemployment benefits, health insurance, and any other benefits paid for by CALSC on behalf of the employees. Each year I have attempted to reconcile this account and have been able to do so within reasonable limits. However, the process is not efficient and there is a risk that costs could *inadvertently become buried in this account which* could affect reconciliation of other accounts.

Corrective Action: This finding was corrected during 1996. Management implemented my recommendations at the time new accounting software was installed.

Finding #2: THE YEAR-TO-DATE GENERAL LEDGER SHOULD BE REVIEWED MONTHLY TO DETECT CODING AND CLASSIFICATION ERRORS AND UNUSUAL ENTRIES

The general ledger details need to be reviewed at least monthly to detect bookkeeping errors and unusual transactions that may require additional documentation. There were some instances noted where classification errors had been made that could have been caught and adjusted had this procedure been followed regularly throughout the year.

Corrective Action: Management spent more time reviewing the general ledger details in 1996. Bookkeeping errors were caught and corrected on a more timely basis.

Note 16 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

• Legal assistance program - Unused LSC grant support	$ 69,293
• Legal assistance program - donated rent for the Baton Rouge and Donaldsonville offices	60,750
Total	$130,043

There were not any permanently restricted net assets received, disbursed, or included in net assets during 1996.