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# CAPITAL AREA LEGAL SERVICES CORPORATION
Baton Rouge, Louisiana

Financial Statements

December 31, 1998

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Baton Rouge, Louisiana

December 31, 1998

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# NEIL G. FERRARI

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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
Baton Rouge, Louisiana.

I have audited the accompanying statement of financial position of Capital Area Legal Services Corporation (a nonprofit corporation) as of December 31, 1998, 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 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. 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, 1998, 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 dated March 26, 1999, on my consideration of Capital Area Legal Services Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.

My audit was performed 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 accompany Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information 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 B. Ferrari, CPA

Baton Rouge, Louisiana
March 26, 1999.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors,
Capital Area Legal Services Corporation
Baton Rouge, Louisiana.

I have audited the financial statements of the Capital Area Legal Services Corporation (a nonprofit corporation), as of and for the year ended December 31, 1998, and have issued my report thereon dated March 26, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Capital Area Legal Services Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Capital Area Legal Services Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to the management of Capital Area Legal Services Corporation in a separate letter dated March 26, 1999.

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

Neil G. Ferrari, CPA

Baton Rouge, Louisiana,
March 26, 1999.

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors,
Capital Area Legal Services Corporation
Baton Rouge, Louisiana.

Compliance

I have audited the compliance of the Capital Area Legal Services Corporation (a nonprofit organization), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Compliance Supplement for Audits of LSC Recipients that are applicable to its major federal program for the year ended December 31, 1998. The Capital Area Legal Services Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Capital Area Legal Services Corporation's management. My responsibility is to express an opinion on the Capital Area Legal Services Corporation's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations; the LSC Audit Guide for Recipients and Auditors, and the Compliance Supplement for Audits of LSC Recipients. Generally accepted auditing standards, Government Auditing Standards, and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Capital Area Legal Services Corporation's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Capital Area Legal Services Corporation's compliance with those requirements.

In my opinion, the Capital Area Legal Services Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1998.

Internal Control Over Compliance

The management of the Capital Area Legal Services Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Capital Area Legal Services Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of Capital Area Legal Services Corporation'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,
March 26, 1999.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

STATEMENT OF FINANCIAL POSITION

December 31, 1998
(With summarized financial information as of December 31, 1997)

| | 1998 | 1997 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents | $43,410 | $89,293 |
| Grants and contracts receivable | 8,768 | 1,841 |
| Other receivables | 683 | 4,160 |
| Travel advance | 4,328 | 0 |
| Prepaid expenses | 9,820 | 11,426 |
| Client case costs advanced | 850 | 0 |
| Unconditional promises to give | 13,200 | 13,200 |
| Cash - client escrow funds | 36,652 | 35,547 |
| Total current assets | 117,711 | 155,467 |
| PROPERTY AND EQUIPMENT, net of depreciation | 77,862 | 119,788 |
| OTHER | | |
| Unconditional promises to give | 21,150 | 34,350 |
| Deposits | 230 | 230 |
| Cash - client escrow funds | 20,174 | 18,826 |
| Total other assets | 41,554 | 53,406 |
| Total assets | $237,127 | $328,661 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $8,633 | $11,552 |
| Payroll taxes and other withholdings | 2,292 | 2,606 |
| IOLTA interest payable | 0 | 3 |
| Unearned EPS revenue | 4,843 | 3,056 |
| Current maturities of capital lease obligation | 6,058 | 5,248 |
| Accrued annual leave | 37,080 | 37,080 |
| Client trust funds deposited | 36,687 | 35,544 |
| Total current liabilities | 95,593 | 95,089 |
| OBLIGATION UNDER CAPITAL LEASE, less current portion | 14,344 | 20,402 |
| CLIENT TRUST FUNDS DEPOSITED | 20,190 | 18,826 |
| Total liabilities | 130,127 | 134,317 |
| NET ASSETS | | |
| Unrestricted: | | |
| Designated by the Board of Directors for client case costs | 4,717 | 0 |
| Undesignated | 61,262 | 113,552 |
| Total unrestricted net assets | 65,979 | 113,552 |
| Temporarily restricted | 41,021 | 80,792 |
| Total net assets | 107,000 | 194,344 |
| Total liabilities and net assets | $237,127 | $328,661 |

See notes to financial statements.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 1998
( With summarized financial information for the year ended December 31, 1997)

| | | | Temporarily Restricted | | | | |
|---|---|---|---|---|---|---|---|
| | | Unrestricted | LSC | Non - LSC | Total | 1998 | 1997 |
| REVENUES AND OTHER SUPPORT | | | | | | | |
| Grants : | | | | | | | |
| Legal Services Corporation (LSC) | | $0 | $1,327,832 | $0 | $1,327,832 | $1,327,832 | $1,327,832 |
| Louisiana Bar Foundation (LBF) | | 0 | 0 | 83,033 | 83,033 | 83,033 | 78,750 |
| Local Bar Associations | | 0 | 0 | 93,000 | 93,000 | 93,000 | 93,000 |
| Capital Area Agency on Aging: | | | | | | | |
| Elderly Protective Services | | 128,553 | 0 | 0 | 0 | 128,553 | 117,060 |
| City of Baton Rouge | | 44,000 | 0 | 0 | 0 | 44,000 | 0 |
| Entergy Corporation | | 25,000 | 0 | 0 | 0 | 25,000 | 25,000 |
| Baton Rouge Bar Foundation | | 20,000 | 0 | 0 | 0 | 20,000 | 0 |
| St. John the Baptist Parish Council | | 5,800 | 0 | 0 | 0 | 5,800 | 0 |
| St. James Parish Council | | 5,800 | 0 | 0 | 0 | 5,800 | 5,800 |
| Iberville Parish Police Jury | | 5,800 | 0 | 0 | 0 | 5,800 | 5,800 |
| Ascension Parish Council | | 12,400 | 0 | 0 | 0 | 12,400 | 9,400 |
| Terrebonne Parish Consolidated Government | | 11,200 | 0 | 0 | 0 | 11,200 | 5,800 |
| Public support : | | | | | | | |
| Kiwanis Club | | 300 | 0 | 0 | 0 | 300 | 300 |
| *Program service fees :* | | | | | | | |
| Various Councils on Aging | | 13,989 | 0 | 0 | 0 | 13,989 | 13,217 |
| Capital Area Agency on Aging | | 13,889 | 0 | 0 | 0 | 13,889 | 12,134 |
| Department of Corrections | | 0 | 0 | 0 | 0 | 0 | 6,700 |
| Continuing Legal Education Fees | | 0 | 825 | 0 | 825 | 825 | 0 |
| Contributions and Net Revenue from Special Event: | | | | | | | |
| Contributions | | 1,525 | 0 | 0 | 0 | 1,525 | 0 |
| Advertising revenue - special event program | | 1,905 | 0 | 0 | 0 | 1,905 | 0 |
| Special event revenue | 11,200 | | | | 0 | 0 | 0 |
| Less: Costs of direct benefits to donors | (3,215) | 7,985 | 0 | 0 | 0 | 7,985 | 0 |
| Interest income | | 471 | 7,257 | 41 | 7,298 | 7,769 | 7,360 |
| Other revenue : | | | | | | | |
| Distributions from the 19th Judicial District Expense Fund | | 9,505 | 0 | 0 | 0 | 9,505 | 0 |
| Court awarded attorney fees | | 0 | 0 | 0 | 0 | 0 | 2,625 |
| Loss on disposition of obsolete equipment | | 0 | 0 | 0 | 0 | 0 | (2,237) |
| Miscellaneous | | 119 | 0 | 0 | 0 | 119 | 632 |
| Vending machine commissions | | 128 | 0 | 0 | 0 | 128 | 185 |
| Donated services | | 491,633 | 0 | 0 | 0 | 491,633 | 344,578 |
| Net assets released from restrictions : | | | | | | | |
| Satisfaction of program restrictions: | | | | | | | |
| LSC | | 1,362,485 | (1,362,485) | 0 | (1,362,485) | 0 | 0 |
| LBF | | 83,074 | 0 | (83,074) | (83,074) | 0 | 0 |
| Local Bar Associations | | 93,000 | 0 | (93,000) | (93,000) | 0 | 0 |
| Satisfaction of time restrictions | | 13,200 | 0 | (13,200) | (13,200) | 0 | 0 |
| Total revenues and other support | | $2,351,761 | ($26,571) | ($13,200) | ($39,771) | $2,311,990 | $2,053,936 |

(Statement of Activities is continued on the next page)

See notes to financial statements.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 1998
( With summarized financial information for the year ended December 31, 1997)

| | | Temporarily Restricted | | | | |
|---|---|---|---|---|---|---|
| | Unrestricted | LSC | Non - LSC | Total | 1998 | 1997 |
| EXPENSES | | | | | | |
| Program Services : | | | | | | |
| Legal assistance | $1,870,025 | $0 | $0 | $0 | $1,870,025 | $1,684,707 |
| Elderly Protective Services | 129,998 | 0 | 0 | 0 | 129,998 | 121,370 |
| Supporting Services : | | | | | | |
| Management and general | 361,186 | 0 | 0 | 0 | 361,186 | 321,272 |
| Fund-raising - special event 40th anniversary | 38,125 | 0 | 0 | 0 | 38,125 | 0 |
| Total expenses | 2,399,334 | 0 | 0 | 0 | 2,399,334 | 2,127,349 |
| INCREASE (DECREASE) IN NET ASSETS | (47,573) | (26,571) | (13,200) | (39,771) | (87,344) | (73,413) |
| NET ASSETS AT BEGINNING OF YEAR | 113,552 | 33,242 | 47,550 | 80,792 | 194,344 | 267,757 |
| NET ASSETS AT END OF YEAR | $65,979 | $6,671 | $34,350 | $41,021 | $107,000 | $194,344 |

See notes to financial statements.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 1998
(With summarized financial information for the year ended December 31, 1997)

| | Program Services | | Supporting Services | | | |
|---|---|---|---|---|---|---|
| | Legal Assistance | Elderly Protective Services | Management and General | Fund-raising | 1998 | 1997 |
| PERSONNEL EXPENSES | | | | | | |
| Salaries and wages: | | | | | | |
| Attorney | $339,692 | $7,643 | $73,499 | $3,679 | $424,513 | $390,551 |
| Paralegal | 126,997 | 0 | 0 | 0 | 126,997 | 137,935 |
| Other staff | 293,745 | 80,964 | 147,616 | 721 | 523,046 | 516,677 |
| Employee benefits, including payroll taxes | 146,795 | 17,087 | 39,581 | 336 | 203,799 | 179,437 |
| Total personnel expenses | 907,229 | 105,694 | 260,696 | 4,736 | 1,278,355 | 1,224,600 |
| OPERATING AND OTHER EXPENSES | | | | | | |
| Space and occupancy: | | | | | | |
| Building rental | 60,897 | 2,250 | 9,715 | 0 | 72,862 | 68,325 |
| Utilities | 18,509 | 0 | 2,958 | 0 | 21,467 | 22,674 |
| Janitorial and building maintenance | 9,816 | 0 | 1,837 | 0 | 11,653 | 12,965 |
| Equipment rental | 13,040 | 0 | 1,081 | 0 | 14,121 | 12,226 |
| Equipment maintenance | 27,593 | 3,038 | 2,567 | 0 | 33,198 | 23,241 |
| Office expenses: | | | | | | |
| Consumables | 25,915 | 3,508 | 3,269 | 0 | 32,692 | 26,227 |
| Postage | 8,206 | 450 | 962 | 0 | 9,618 | 9,977 |
| Printing | 550 | 0 | 550 | 0 | 1,100 | 1,267 |
| Advertising | 0 | 0 | 702 | 0 | 702 | 1,846 |
| Legal and paralegal consultants | 64,805 | 0 | 0 | 0 | 64,805 | 81,482 |
| Subrecipient awards | 46,836 | 0 | 0 | 0 | 46,836 | 38,000 |
| Telephone | 48,660 | 4,365 | 5,892 | 0 | 58,917 | 57,347 |
| Depreciation and amortization | 33,842 | 1,145 | 6,939 | 0 | 41,926 | 48,600 |
| 40th Anniversary event | 0 | 0 | 0 | 33,389 | 33,389 | 0 |
| Travel | 22,372 | 4,427 | 4,575 | 0 | 31,374 | 33,407 |
| Training | 15,471 | 1,086 | 12,927 | 0 | 29,484 | 32,446 |
| Library additions and subscription renewals | 18,983 | 0 | 0 | 0 | 18,983 | 14,748 |
| Audit fees | 0 | 1,306 | 17,299 | 0 | 18,605 | 17,485 |
| Insurance | 13,807 | 488 | 3,037 | 0 | 17,332 | 16,417 |
| Staff parking | 11,081 | 1,944 | 3,888 | 0 | 16,913 | 0 |
| Equipment purchases under capitalization limit | 11,944 | 297 | 1,341 | 0 | 13,582 | 0 |
| Dues and memberships | 2,370 | 0 | 4,061 | 0 | 6,431 | 7,126 |
| Computer consultants and payroll services | 0 | 0 | 4,895 | 0 | 4,895 | 4,373 |

(Statement of Functional Expenses is continued on the next page)
See notes to financial statements.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

STATEMENT OF FUNCTIONAL EXPENSES
(CONTINUED)

For the year ended December 31, 1998
(With summarized financial information for the year ended December 31, 1997)

| | Program Services | | Supporting Services | | | |
|---|---|---|---|---|---|---|
| | Legal Assistance | Elderly Protective Services | Management and General | Fund-raising | 1998 | 1997 |
| Access to Justice | $4,383 | $0 | $0 | $0 | $4,383 | $1,826 |
| Interest | 0 | 0 | 3,365 | 0 | 3,365 | 5,054 |
| Meetings | 0 | 0 | 2,881 | 0 | 2,881 | 1,227 |
| Bank charges | 0 | 0 | 1,417 | 0 | 1,417 | 1,409 |
| Litigation | 509 | 0 | 0 | 0 | 509 | 2,406 |
| Property taxes | 0 | 0 | 89 | 0 | 89 | 854 |
| Equipment donations | 0 | 0 | 0 | 0 | 0 | 717 |
| Miscellaneous | 642 | 0 | 1,975 | 0 | 2,617 | 1,299 |
| Total operating and other expenses | 460,231 | 24,304 | 98,222 | 33,389 | 616,146 | 544,971 |
| DONATED SERVICES | | | | | | |
| Attorney and paralegal services | 491,633 | 0 | 0 | 0 | 491,633 | 344,578 |
| Rent | 10,932 | 0 | 2,268 | 0 | 13,200 | 13,200 |
| Total donated services | 502,565 | 0 | 2,268 | 0 | 504,833 | 357,778 |
| Total expenses | $1,870,025 | $129,998 | $361,186 | $38,125 | $2,399,334 | $2,127,349 |

*See notes to financial statements.*

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

STATEMENT OF CASH FLOWS

December 31, 1998
(With summarized financial information as of December 31, 1997)

| | 1998 | 1997 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | ($87,344) | ($73,413) |
| Adjustments to reconcile change in net assets to cash provided (used) by operating activities: | | |
| Depreciation and amortization | 41,926 | 48,600 |
| Decrease in unconditional promises to give | 13,200 | 13,200 |
| Loss on disposition of obsolete equipment | 0 | 2,237 |
| Equipment donations | 0 | 717 |
| (Increase) decrease in operating assets: | | |
| Receivables | (6,927) | 24,688 |
| Other receivables | 3,477 | (404) |
| Travel advances | (4,328) | 680 |
| Prepaid expenses | 1,606 | (740) |
| Client case costs advanced | (850) | 0 |
| Client escrow funds | (2,453) | 2,188 |
| Deposits | 0 | 2,000 |
| (Decrease) increase in operating liabilities : | | |
| Accounts payable | (2,919) | (2,064) |
| Payroll taxes and other withholdings | (314) | (1,114) |
| Disallowed costs payable to LSC | 0 | (816) |
| Unearned support | 1,787 | 3,056 |
| Accrued annual leave | 0 | (5,991) |
| Client trust funds deposited | 2,507 | (2,188) |
| IOLTA interest payable | (3) | 3 |
| Net cash provided from (used by) operating activities | (40,635) | 10,639 |
| CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES | | |
| Purchases of furniture and equipment | 0 | (6,908) |
| Net cash provided from (used by) investing activities | 0 | (6,908) |
| CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES | | |
| Principal payments on capital lease obligations | (5,248) | (13,650) |
| Principal payments on long-term debt | 0 | (6,055) |
| Net cash provided from (used by) financing activities | (5,248) | (19,705) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (45,883) | (15,974) |
| CASH AND CASH EQUIVALENTS | | |
| *Beginning of year* | 89,293 | 105,267 |
| End of year | $43,410 | $89,293 |
| SUPPLEMENTAL DISCLOSURES : | | |
| Interest expense paid | $3,365 | $5,054 |
| Interest income received | 7,769 | 7,360 |
| Noncash transactions : | | |
| Write off of obsolete equipment | 0 | 2,237 |
| Equipment donations | 0 | 717 |

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1998

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 hire a personal attorney. 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 Guide For LSC Recipients" issued by Legal Services Corporation on August 14, 1997, when preparing these financial statements.

c. Recognition of LSC Grant Support and Net Assets

CALSC recognizes grant funds from LSC as a contribution with donor-imposed restrictions 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.

Certain 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), various parish councils and police juries, the Baton Rouge Bar Foundation, and Entergy Corporation.

Other grant revenues are unrestricted in nature because they are not connected with the incurrence of specific costs or the passage of time. In this case, revenues from these types of grants are recognized upon receipt. This method of revenue recognition was used for the grant from the City of Baton Rouge.

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.

Beginning August 14, 1997, (the effective date of the revised LSC accounting guide) CALSC follows the practice of capitalizing all expenditures for property and equipment in excess of $1,000. Before that date, CALSC's capitalization threshold was $100.

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

e. Property and Equipment - (continued)

Depreciation of property and equipment is computed on a straight-line basis over the assets' estimated useful lives 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 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 1998 or any previous year.

As of December 31, 1998, property and equipment on the balance sheet includes $68,112 of assets which have been acquired by CALSC under capital lease agreements. Amortization expense for assets acquired under capital leases was $11,744 for 1998. This amount has been included in the total depreciation and amortization expense of $41,926 on the financial statements. The accumulated amortization of assets acquired by capital lease was $50,292 as of December 31, 1998.

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

f. Law Library

CALSC capitalized the initial cost of books, reference materials and multiple-volume sets of law books. Prior to 1997, LSC guidance stated that the initial cost of the law library should not be depreciated. However, the current "Accounting Guide for LSC Recipients" requires the law library to be depreciated over its useful life. When LSC accounting policy changed in 1997, CALSC management estimated that the remaining useful life of the law library was five years and began depreciating the cost of the law library on a straight-line basis effective January 1, 1997.

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 1998 financial statements was $491,633 as described below. All donated services related to CALSC's legal assistance program.

- 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 $405,146 for these donated services for 1998 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.

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

g. Donated Services - (continued)

- 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 $86,487.

- 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 recorded $63,000 as temporarily restricted donated services in 1996 relating to the in-kind value of the lease extension. For 1998, CALSC has recognized $12,600 as net assets which have been released from a time restriction relating to the Baton Rouge office.

- 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 recorded $3,225 as temporarily restricted donated services in 1996 relating to the in-kind value of this lease. For 1998, CALSC has recognized $600 as net assets which have been released from a time restriction relating to the Donaldsonville office.

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

g. Donated Services - (continued)

Donated services that were not recorded as 1998 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 1998 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.

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 benefitted. 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.

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

I. Expense Allocation - Statement of Activities and Statement of Functional Expenses - (continued)

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.

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. Another 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.

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

I. Expense Allocation - Statement of Activities and Statement of Functional Expenses - (continued)

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, in certain cases, because the nature of the costs is such that they are also allowable costs under the LSC grant award.

In September, 1998, CALSC held a special fund raising event to celebrate its 40th anniversary. Personnel and other costs directly related to the coordination and sponsoring of this event were allocated directly to fund raising expense. No allocation of indirect costs was made by management to the fund raising event because any amounts would have been an insignificant factor. Total fund raising costs for this event were $38,125.

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).

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

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,

- 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 Bank One. 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 pays its bills. As of December 31, 1998, CALSC had spent all funds received from the LBF whereas $6,671 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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

m. Compensated Absences

Full time employees earn vacation leave beginning with the first month of employment at the rate of ten hours per month. Employees with three to five years of service earn 12 hours per month and employees with five years of service of more earn 14 hours of vacation leave per month. Employees are allowed to carry over up to 80 hours of vacation leave to the following year, and can carry over additional hours with the written approval of the executive director. Payment for vacation leave is made by CALSC upon job termination of an employee for any reason.

The liability for accumulated unpaid vacation is determined by using the number of vested vacation hours for each employee multiplied by the employee's current wage rate at the end of the year. An amount is added to this total for social security and medicare taxes.

CALSC's sick leave policy does not provide for the vesting of sick leave whereby an employee could be entitled to payment of any unused portion upon termination.

Note 2 - COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain summarized comparative information for the year 1997 in total but not by net asset class. In addition, the summarized 1997 comparative information is not fully supported by required footnote disclosures. As a result, the 1997 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, 1997, from which the summarized information was derived.

Note 3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at December 31, 1998, 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 |
|---|---|---|---|
| 1999 | $ 12,600 | $ 600 | $ 13,200 |
| 2000 | 12,600 | 600 | 13,200 |
| 2001 | 7,350 | 600 | 7,950 |
| 2002 | - | - | - |
| 2003 | - | - | - |
| | $ 32,550 | $ 1,800 | $ 34,350 |

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.

Note 5 - <u>GRANT SUPPORT AND NATURE OF ACTIVITIES</u>

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 1998 was as follows:

LSC Recipient No. 619010
LSC Grant Action No. 980001

| | |
|---|---|
| LSC Basic Grant Award | $1,327,832 |

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 1998 CALSC received support in the form of grants from sources other than LSC as follows:

- The Louisiana Bar Foundation provided $83,033 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 <u>each</u> 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(EPS), 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, 1999 and 1998 were $134,190 and $134,190, respectively.

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

- The St. James Parish Council awarded CALSC a grant for $5,800 to subsidize the costs of providing legal services to poor people in St. James Parish.

- The Iberville Parish Police Jury awarded CALSC a $5,800 grant to subsidize the costs of providing legal services to poor people in Iberville Parish.

- The St. John the Baptist Parish Council awarded CALSC a $5,800 grant to subsidize the costs of providing legal services to poor people in St. John the Baptist Parish.

- The Ascension Parish Council awarded CALSC a grant for $12,400 to subsidize the costs of providing legal services to poor people in Ascension Parish.

- The Terrebonne Parish Consolidated Government awarded CALSC a grant for $11,200 to subsidize the costs of providing legal services to poor people in Terrebonne Parish.

- The City of Baton Rouge provided CALSC $44,000 of funds to help subsidize the costs of providing legal services to poor people in East Baton Rouge Parish. CALSC's management used this money to offset the rent expense for the CALSC's main office in Baton Rouge.

- Entergy Corporation provided a $25,000 grant to CALSC to enable CALSC to educate its client base about deregulation changes occurring in the utility industry and the effects of these changes upon consumers, particularly poor people. CALSC staff attended utility conferences to learn about important issues involved with deregulation. Presentations were made to the Louisiana Public Service Commission at various hearings to report on some consequences of utility deregulation. Some of the Entergy funds were used to organize a Pro Bono Project for the Louis A. Martinet Society.

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

- The Baton Rouge Bar Foundation provided a $20,000 grant to CALSC for the primary purpose of hiring a full-time employee to assist with the client intake process and to help prepare and coordinate files for the Pro Bono project.

The requirements of certain grants and contracts require that any funds not spent by CALSC for allowable program costs must be returned to the grantor unless a special waiver is obtained. CALSC did not spend all of its EPS grant award for the grant year ended June 30, 1998. Accordingly, unearned income of $4,843 has been presented as a current liability in the Statement of Financial Position.

Note 6 - FIXED ASSETS

The following is an analysis of fixed assets as of December 31, 1997:

| Asset Type and Related Accumulated Depreciation | Acquired With Funds From LSC | EPS | Totals |
|---|---|---|---|
| Furniture, fixtures, and equipment | $301,808 | $ 9,742 | $ 311,550 |
| Accumulated depreciation | (214,925) | (7,693) | (222,618) |
| Net book value | 86,883 | 2,049 | 88,932 |
| Leasehold improvements | 633 | - | 633 |
| Accumulated amortization | (623) | - | (623) |
| Net book value | 10 | - | 10 |
| Law Library | 38,557 | - | 38,557 |
| (*) Accumulated depreciation | (7,711) | - | (7,711) |
| Net book value | 30,846 | - | 30,846 |
| Total net book value | $117,739 | $ 2,049 | $ 119,788 |

(*) Depreciation was not taken on the law library until 1997 when changes were made to LSC's accounting guide.

Note 6 - FIXED ASSETS - (continued)

The following is an analysis of fixed assets as of December 31, 1998:

| Asset Type and Related Accumulated Depreciation | Acquired With Funds From LSC | EPS | Totals |
|---|---|---|---|
| Furniture, fixtures, and equipment | $300,447 | $ 9,742 | $ 310,189 |
| Accumulated depreciation | (246,623) | (8,838) | (255,461) |
| Net book value | 53,824 | 904 | 54,728 |
| Leasehold improvements | 633 | - | 633 |
| Accumulated amortization | (633) | - | (633) |
| Net book value | - | - | - |
| Law Library | 38,557 | - | 38,557 |
| Accumulated depreciation | (15,423) | - | (15,423) |
| Net book value | 23,134 | - | 23,134 |
| Total net book value | $ 76,958 | $ 904 | $ 77,862 |

The total net book value of fixed assets is included as a component of the unrestricted net asset totals.

Note 7 - LEASE COMMITMENTS

CALSC leases office space for its operations in Baton Rouge, Donaldsonville, Houma and Gonzales. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are:

| Year | Baton Rouge | Donaldsonville | Totals |
|---|---|---|---|
| 1999 | $ 45,000 | $ 6,000 | $ 51,000 |
| 2000 | 45,000 | 6,000 | 51,000 |
| 2001 | 26,250 | 6,000 | 32,250 |
| | $116,250 | $ 18,000 | $134,250 |

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.

The Baton Rouge and Donaldsonville leases are included in the schedule of minimum payments for operating leases because there is no indication that the conditions required to cancel the leases will occur. The Houma and Gonzales office leases are not included because they do not have initial or remaining terms in excess of one year.

Lease expense, excluding the in-kind rent reductions, for office rentals totaled $71,247 during the year.

On July 31, 1996, CALSC's management renegotiated the monthly lease payment for its Baton Rouge office and extended the lease for five additional years. CALSC's monthly rent is $3,750 for the lease term of August 1, 1996 to July 31, 2001.

The Houma office lease was effective only for one year (1998) at a rate of $750 per month for January 1 to April 30, and $1,050 per month for May 1 to December 31. For periods after December 31, 1998, the lease renews on a calendar year basis automatically for 1 additional year. The monthly rent for 1999 will be $1,050. CALSC has the option to cancel the lease upon thirty days notice to the lessor in the event CALSC's funds are decreased by LSC.

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.

Note 7 - LEASE COMMITMENTS - (continued)

The Gonzales office lease had an initial term of May 1, 1997 to April 30, 1998 at a monthly rate of $750. CALSC renewed this lease for an additional year, May 1, 1998 to April 30, 1999, at a rate of $750 per month. This lease may be renewed by CALSC no later than 90 days before the expiration date under the same terms, with the new rate to be negotiated and agreed to by mutual consent.

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.

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% |

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

| Year Ending 12/31 | |
|---|---|
| 1999 | $ 8,612 |
| 2000 | 8,612 |
| 2001 | 7,893 |
| | 25,117 |
| Less imputed interest | (4,715) |
| Present value of net minimum lease payments | $20,402 |

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 5.56% of all indirect costs incurred during the year were allocated to PAI.

CALSC has agreements with the Baton Rouge Bar Foundation and the Louis A. Martinet Society to provide administrative services to monitor the pro bono portion of CALSC's PAI program. For 1998, subrecipient awards under these agreements were as follows:

| | |
|---|---|
| Baton Rouge Bar Foundation | $38,000 |
| Louis A. Martinet Society | 8,836 |
| | $46,836 |

Note 9 - CONTINGENT LIABILITIES

A lawsuit was filed against CALSC wherein the plaintiff alleges CALSC failed to timely file responsive pleadings on behalf of one of CALSC's clients in a suit involving a promissory note. CALSC's attorney has recommended that management vigorously oppose the plaintiff's claim by attaching the validity of the underlying judgment on procedural grounds. Any potential loss in this case would be covered by CALSC's liability insurance with CALSC's out-of-pocket costs being limited to the $1,000 deductible, which has not yet been paid. There has been very little movement in this case since last year, however, CALSC's attorney believes CALSC will prevail based on the investigation that has been done thus far on this case.

Note 9 - CONTINGENT LIABILITIES - (continued)

CALSC has been sued by a former employee for wrongful termination. CALSC has won the initial exceptions filed in this case. CALSC intends to defend itself vigorously in this case. Management and CALSC's attorney believe there will be a favorable outcome for CALSC because the plaintiff in this case has filed bankruptcy and has not taken any action in a year. Although it is impossible to predict any potential loss, management feels CALSC exposure is minimal in this case.

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 - RETIREMENT PLAN

Effective July 1, 1997, CALSC began a retirement plan for its full-time employees. All full-time employees may make an elective contribution from 1% to 15% of their salaries to the plan. These contributions are 100% vested. In addition, CALSC may elect to make contributions for all plan participants with at least one full year of service. The CALSC board of directors established a 3% employer contribution rate for 1998. The rate for 1997 was 2%. A plan participant does not vest in employer contributions until three years of service have been credited on his behalf. At that time all contributions made on his behalf are 100% vested.

Note 11 - RETIREMENT PLAN - (continued)

Also, if a participant's employment ends due to retirement after age 65, disability or death, any employer contributions made on his behalf become fully vested irrespective of the 3 year vesting period.

During 1998, 32 employees participated in the plan. CALSC's contributions to the plan for 1998 were $26,518. The plan operates on a calendar year (same year as CALSC). The wages for the eligible employees totaled $874,012. All amounts have been contributed by CALSC as required by the plan.

Note 12 - RESTRICTIONS ON NET ASSETS

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

| | |
|---|---|
| ▮ Legal assistance program - Unused LSC grant support | $ 6,671 |
| ▮ Legal assistance program - Donated rent for the Baton Rouge and Donaldsonville offices | 34,350 |
| Total | $ 41,021 |

There were not any permanently restricted net assets received, disbursed, or included in net assets during 1998.

Note 13 - FEDERAL AWARD PROGRAM

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 Amendments of 1996, OMB Circular A-133, and the LSC Audit Guide for Recipients and Auditors. No costs were questioned by the auditor during the 1998 audit; however, LSC may provide for further examination. Based on prior experience, CALSC's management believes that further examinations would not result in any significant disallowances that would adversely affect CALSC's financial position. Any costs that would be disallowed would be recognized in the period agreed upon by the agency and CALSC.

Note 13 - FEDERAL AWARD PROGRAM - (continued)

In accordance with the Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133, a Schedule of Expenditures of Federal Awards is presented in the supplementary financial information section of this report.

Note 14 - 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 1999 is expected to be $1,398,480.

Note 15 - 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, client board members are reimbursed in accordance with CALSC's travel reimbursement policy when attending meetings on behalf of CALSC.

Note 16 - CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The CALSC maintains its cash balances primarily in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation(FDIC) up to $100,000 in each bank. At December 31, 1998, CALSC's uninsured cash balances totaled $29,515; however, this amount was collateralized by a pledge of United States Government securities with a value of $38,675 by the bank where deposits exceeded FDIC insurance coverage.

Note 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS

CALSC has a number of financial instruments, none of which are held for trading purposes. CALSC estimates that the carrying amount of all financial instruments at December 31, 1998, approximated their fair values.

Note 18 - RISK MANAGEMENT

CALSC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CALSC has purchased commercial insurance cover or reduce the risk of loss that might arise should one of these incidents occur. No settlements were made during the fiscal year that exceeded CALSC's insurance coverage.

Note 19 - UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect CALSC's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting CALSC, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved. However, CALSC's management has taken action to minimize any adverse effects which might result from the Year 2000.

# SUPPLEMENTARY FINANCIAL INFORMATION

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

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

For the Year Ended December 31, 1998
(With Comparative Summarized Totals for the Year Ended December 31, 1997)

| | Basic Field Award | Private Attorney Involvement | Total 1998 | Total 1997 |
|---|---|---|---|---|
| SUPPORT AND REVENUES | | | | |
| Grant from Legal Services Corporation | $1,111,563 | $216,269 | $1,327,832 | $1,327,832 |
| Interest income | 7,257 | 0 | 7,257 | 6,985 |
| Fees charged for CLE seminar | 0 | 825 | 825 | 2,625 |
| Total support and other revenues | 1,118,820 | 217,094 | 1,335,914 | 1,337,442 |
| EXPENSES | | | | |
| Salary and wages: | | | | |
| Attorney | 349,767 | 17,463 | 367,230 | 339,899 |
| Non-attorney | 380,200 | 41,844 | 422,044 | 433,641 |
| Employee benefits | 134,506 | 19,789 | 154,295 | 139,719 |
| Total personnel expenses | 864,473 | 79,096 | 943,569 | 913,259 |
| Space and occupancy: | | | | |
| Building rental | 1,627 | 4,785 | 6,412 | 54,604 |
| Utilities | 20,274 | 1,193 | 21,467 | 22,576 |
| Janitorial and building maintenance | 11,004 | 648 | 11,652 | 12,905 |
| Equipment rental | 13,337 | 785 | 14,122 | 12,175 |
| Equipment maintenance | 28,314 | 1,846 | 30,160 | 23,158 |
| Office expenses: | | | | |
| Consumables | 26,593 | 1,818 | 28,411 | 24,666 |
| Postage | 8,615 | 535 | 9,150 | 9,631 |
| Advertising | 663 | 39 | 702 | 908 |
| Printing | 1,040 | 61 | 1,101 | 1,267 |
| Legal and paralegal consultants | 124 | 64,171 | 64,295 | 79,039 |
| Subrecipient awards - Schedule 5 | 0 | 46,836 | 46,836 | 38,000 |
| Telephone | 47,172 | 3,033 | 50,205 | 51,887 |
| Travel | 10,653 | 4,530 | 15,183 | 20,844 |
| Training | 22,884 | 3,087 | 25,971 | 23,142 |
| Library additions and subscription renewals | 17,928 | 1,055 | 18,983 | 14,513 |
| Insurance | 15,880 | 964 | 16,844 | 15,653 |
| Staff parking | 14,194 | 2,892 | 17,086 | 0 |
| Audit fees | 13,831 | 1,034 | 14,865 | 14,512 |
| Equipment purchases under capitalization limit | 11,209 | 0 | 11,209 | 0 |
| Interest expense | 3,365 | 0 | 3,365 | 5,054 |
| Computer consultants and payroll services | 3,019 | 272 | 3,291 | 3,014 |
| Meetings | 1,314 | 1,352 | 2,666 | 642 |
| Dues and memberships | 2,238 | 132 | 2,370 | 2,215 |
| Litigation | 20 | 297 | 317 | 1,800 |
| Bank charges | 283 | 0 | 283 | 562 |
| Property taxes | 89 | 0 | 89 | 854 |
| Total expenses | 1,140,143 | 220,461 | 1,360,604 | 1,346,880 |
| SUPPORT AND REVENUES OVER(UNDER) EXPENSES | (21,323) | (3,367) | (24,690) | (9,438) |
| OTHER CHANGES IN NET ASSETS DURING THE YEAR | | | | |
| Property and equipment acquisitions which were capitalized | 0 | 0 | 0 | (6,908) |
| Principal payments on capital leases | (5,248) | 0 | (5,248) | (13,650) |
| Expenses absorbed by grant from the Baton Rouge Bar Foundation | 0 | 3,367 | 3,367 | 0 |
| Principal payments on bank loan | 0 | 0 | 0 | (6,055) |
| Net other changes | (5,248) | 3,367 | (1,881) | (26,613) |
| NET ASSETS AT BEGINNING OF YEAR | 33,242 | 0 | 33,242 | 69,293 |
| NET ASSETS AT END OF YEAR | $6,671 | $0 | $6,671 | $33,242 |

Schedule 2

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

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

For the Year Ended December 31, 1998

| | |
|---|---|
| SUPPORT AND OTHER REVENUES | |
| Grant from the Louisiana Bar Foundation | $83,033 |
| Interest Income | 41 |
| Total support and other revenue | 83,074 |
| EXPENSES | |
| Salaries and wages | |
| Attorney | 28,583 |
| Non-attorney | 36,700 |
| Employee benefits | 10,420 |
| Total personnel expenses | 75,703 |
| Travel | 1,053 |
| Training | 60 |
| Audit fee | 1,875 |
| Access to Justice | 4,383 |
| Total expenses | 83,074 |
| CHANGE IN NET ASSETS | 0 |
| NET ASSETS AT BEGINNING OF YEAR | 0 |
| NET ASSETS AT END OF YEAR | $0 |

Schedule 3

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

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

For the Year Ended December 31, 1998

| | 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 | 0 | 0 | 15,000 | 0 | 0 | 0 |
| Non-attorney | 14,017 | 13,717 | 0 | 13,539 | 13,717 | 13,717 |
| Employee benefits | 1,483 | 1,783 | 500 | 1,961 | 1,783 | 1,783 |
| Total personnel expenses | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 | 15,500 |
| CHANGE IN NET ASSETS | 0 | 0 | 0 | 0 | 0 | 0 |
| NET ASSETS AT BEGINNING OF YEAR | 0 | 0 | 0 | 0 | 0 | 0 |
| NET ASSETS AT END OF YEAR | $0 | $0 | $0 | $0 | $0 | $0 |

Schedule 4

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 1998

| Federal Grantor | Recipient No. | LSC Grant No. | Federal CFDA No. | Program or Award Amount | Grant Revenue Received | | Federal Expenditures |
|---|---|---|---|---|---|---|---|
| Legal Services Corp. | 619010 | 970001 | None | $1,327,832 | $0 | (*) | $33,242 |
| Legal Services Corp. | 619010 | 980001 | None | 1,327,832 | 1,327,832 | | 1,321,161 |
| | | | | $2,655,664 | $1,327,832 | | $1,354,403 |

The accompanying notes are an integral part of this schedule

(*) Represents money received in 1997 which was carried over to 1998 and spent in that year.

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Capital Area Legal Services Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note B - Subrecipients

Capital Area Legal Services Corporation provided federal awards to subrecipients as follows:

| Source of Federal Funds | Subrecipients | Federal CFDA Number | Amount Provided |
|---|---|---|---|
| Legal Services Corporation | Baton Rouge Bar Foundation | None | $38,000 |
| Legal Services Corporation | Louis Martinet Society | None | 8,836 |
| | | | $46,836 |

Note C - No federal awards were expended in the form of noncash assistance during the year.

CAPITAL AREA LEGAL SERVICES CORPORATION
BATON ROUGE, LOUISIANA

SCHEDULE OF SUBRECIPIENT CASH RECEIPTS AND DISBURSEMENTS

For the Year Ended December 31, 1998

| | Baton Rouge Bar Foundation | Louis Martinet Society | Subrecipient Totals |
|---|---|---|---|
| Cash received from CALSC under subgrant agreement | $38,000 | $8,836 | $46,836 |
| Cash disbursements: | | | |
| Attorney salaries | 0 | 6,000 | 6,000 |
| Non-attorney salaries | 17,499 | 0 | 17,499 |
| Employee benefits - payroll taxes & health insurance | 1,339 | 1,459 | 2,798 |
| Rent | 6,000 | 1,200 | 7,200 |
| Printing | 1,732 | 0 | 1,732 |
| Telephone | 2,531 | 0 | 2,531 |
| Postage | 1,122 | 0 | 1,122 |
| Professional fees | 349 | 0 | 349 |
| Temporary help | 325 | 0 | 325 |
| Utilities | 1,159 | 0 | 1,159 |
| Office consumables | 1,580 | 93 | 1,673 |
| Litigation | 467 | 0 | 467 |
| Travel | 2,672 | 0 | 2,672 |
| Insurance | 299 | 0 | 299 |
| Payroll processing fees | 0 | 68 | 68 |
| Bank charges | 0 | 16 | 16 |
| Meetings | 926 | 0 | 926 |
| Total cash disbursements | 38,000 | 8,836 | 46,836 |
| Cash receipts over (under) cash disbursements | $0 | $0 | $0 |

## SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1998

Last year's audit did not report any findings or questioned costs relative to federal award programs that met the criteria provided in Section .510(a) of OMB Circular A-133.

There was no management letter issued or other findings noted in the 1997 audit report.

Accordingly, there is nothing that is required to be reported upon in this section of the audit report.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

For the Year Ended December 31, 1998

## A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Capital Area Legal Services Corporation.

2. No reportable conditions relating to the audit of the financial statements are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards."

3. No instances of noncompliance material to the financial statements of the Capital Area Legal Services Corporation were disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award program are reported in the "Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133."

5. The auditor's report on compliance for the major federal award programs for the Capital Area Legal Services Corporation expresses an unqualified opinion.

6. There are no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. There was only one federal award program and that program was tested as a major program.

   Legal Service Corporation
   Recipient #619010
   LSC Grant #980001
   Federal CFDA # - None

8. The threshold for distinguishing Types A and B programs was $300,000.

9. Capital Area Legal Services Corporation was not determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

There were no findings that are required to be reported in this section of the report.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There are no findings that are required to be reported in this section of the report.

# NEIL G. FERRARI

CERTIFIED PUBLIC ACCOUNTANT
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SOCIETY OF LOUISIANA CPAs

MEMBER OF THE
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## MANAGEMENT LETTER

March 26, 1999

To the Board of Directors
Capital Area Legal Services Corporation
Baton Rouge, Louisiana

I have audited the financial statements of Capital Area Legal Services Corporation as of and for the year ended December 31, 1998, and have issued my report dated March 26, 1999. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133.

As part of my audit, I also issued a report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, dated March 26, 1999, and a report on compliance with requirements applicable to each major federal award program and on internal control over compliance in accordance with OMB Circular A-133, dated March 26, 1999.

During the course of my audit, I became award of the following immaterial weaknesses in internal control.

### IMMATERIAL WEAKNESSES IN INTERNAL CONTROL

98IC #1 - CALSC'S Vacation Policy Needs to be Reviewed to Determine if it is Functioning as Intended.

CALSC's vacation policy states that "For 1994, and thereafter an employee may not carry over to the succeeding years more than eighty hours of annual leave unless prior express written approval is obtained from the executive director".

I was given a worksheet of each employee and his/her unused vacation hours as of December 31, 1998. Along with the worksheet, I was given a copy of a memo from the Director of Finance/Personnel to the Executive Director itemizing those employees (9) who had more than 80 hours of vacation leave accumulated as of year end. The memo requests the executive director to make any changes to the amount of hours to carry forward. All of the excess hours were approved for carryover. There was a restriction that some employees use any excess hours by a specified date.

The number of excess hours that were approved for carryover ranged from 4.25 to 137.75. Only three of the nine employees submitted a written request to the Executive Director for him to consider as justification for carrying over the excess hours. There may be some confusion amongst employees as to the procedure to follow. Although CALSC's policy seems to imply that it is the employee's responsibility to initiate the written request, it does not clearly state the procedure. The policy also seems to call for the process to be done before the end of the year, whereas the process wasn't begun until after year end.

My recommendation is that the Board of Directors revisit the policy and clarify the procedure and intent. Should the employee be responsible for submitting the carryover request? When is the cutoff date to do this? What justifies a carryover? Should the board set limits based on an employee's position (attorney vs. clerical worker)? Can CALSC afford to accumulate a liability for vacation if funds are not available to pay for the liability?

<u>CALSC's Travel Reimbursement Policy is not Operating as Designed</u>

A $5,000 travel advance was made from the Entergy grant funds to the Executive Director on June 17, 1998. The advance was to provide funds that could be used to reimburse low income clients for travel costs incurred while attending the National Low Income Entergy Conference in New Orleans. However, an expense report was not turned in and reconciled until after year end. The amount due back to CALSC was $4,397.24.

CALSC's travel policy requires an advance to be reconciled within ten days of the trip or purpose of the advance. If not reconciled within that time frame, the unpaid balance should be deducted from the employee's paycheck. This policy was not followed.

I recommend the Board of Directors examine the travel policy to determine if it is appropriate and instruct the Director of Finance/Personnel to enforce it in all cases.

I recommend management address the foregoing issues as an improvement to operations and the administration of public programs. I am available to further explain these matters or to help implement recommendations.

Sincerely,

Neil Ferrari, CPA

Neil G. Ferrari
Certified Public Accountant

# MANAGEMENT'S CORRECTIVE ACTION PLAN

Capital Area Legal Services Corporation
Baton Rouge, Louisiana

December 31, 1998

To the following oversight agencies for audit:

Federal: Legal Services Corporation

State: Legislative Auditor of the State of Louisiana

Capital Area Legal Services Corporation (CALSC), Baton Rouge, Louisiana, respectfully submits the following corrective action plan for the year ended December 31, 1998.

Name and address of independent public accounting firm: Neil G. Ferrari, CPA, 14481 Old Hammond Highway, Suite 4, Baton Rouge, Louisiana, 70816.

Audit period: For the year ended December 31, 1998.

## Financial Statement Findings

There were no significant findings reported by the auditor in this section of the Schedule of Findings and Questioned Costs for which management is required to respond.

## Major Federal Award Program Findings and Questioned Costs

There were no significant findings reported by the auditor in this section of the Schedule of Findings and Questioned Costs for which management is required to respond.

## Management Letter

98IC #1: CALSC's Vacation Policy Needs To Be Reviewed To Determine If It Is Functioning As Intended

Response: CALSC's management has read the auditor's management comment and agrees with it. For 1999, no excess annual leave will be carried over into the next year without prior approval from the Executive Director. The request must be made in writing 30 days prior to the end of the year with written reason showing why the employee cannot use his or her leave so as to avoid any carry over in excess of 80 hours. This will be fully addressed at the next Board of Directors Meeting.

MANAGEMENT'S CORRECTIVE ACTION PLAN - (continued)

98IC #2: CALSC's Travel Reimbursement Policy Is Not Operating As Designed

Response: CALSC's management has read the auditor's management letter comment and agrees with it. During 1998, CALSC received a grant from Entergy Corporation to educate CALSC's client population on utility and consumer issues. In keeping the spirit of the grant, CALSC participated in the 12th Annual National Low Income Entergy Conference held in New Orleans, Louisiana. The Executive Director was on the Host Committee and the Planning Committee. Entergy Corporation, our grantor, agreed to be a cooperative sponsor for the conference and verbally authorized the Executive Director to commit financial support to the conference. A $5,000 travel advance was made to CALSC's Executive Director so he would have funds available to pay stipends and travel expenses for low-income clients who attended the conference. Some of the individual client's travel records were misplaced and some were never submitted. This fact has been reported and CALSC's Executive Director has been advised to keep trying to collect the necessary documentation from the various client attendees so that reimbursements can be made. A full report will be prepared and submitted to Entergy Corporation for advice as how to conclude this matter. The Executive Director has taken full responsibility for this problem and will report upon the matter to CALSC's Board of Directors.

If there are any questions regarding this corrective action plan, please call Jim Wayne at (225) 387-5173, extension 285.