

STATE OF LOUISIANA LEGISLATIVE AUDITOR

**Court of Appeal, Second Circuit
State of Louisiana
Shreveport, Louisiana**

December 6, 2000



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA**
Shreveport, Louisiana

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 2000

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

December 6, 2000

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA**

Special Purpose Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2000

CONTENTS

	Statement	Page No.
Independent Auditor's Report on the Financial Statements		2
<i>Special Purpose Financial Statements - All Appropriated and Non-Appropriated Funds:</i>		
Balance Sheet (Legal Basis)	A	4
Statement of Revenues, Expenditures, and Changes in Fund Balances (Legal Basis)	B	5
Notes to the Financial Statements		6
	Exhibit	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the <i>Financial Statements Performed in Accordance With Government Auditing Standards</i>	A	



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October 30, 2000

Independent Auditor's Report
on the Financial Statements

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Shreveport, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Court of Appeal, Second Circuit, a court within Louisiana state government, as of and for the year ended June 30, 2000, as listed in the table of contents. These financial statements are the responsibility of management of the Court of Appeal, Second Circuit. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Court of Appeal, Second Circuit. As such, they present the appropriated and non-appropriated activity of the court that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activity of the court that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from generally accepted accounting principles as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with generally accepted accounting principles.

LEGISLATIVE AUDITOR

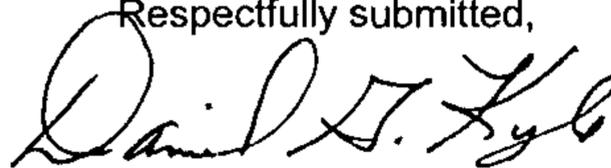
COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Audit Report, June 30, 2000

In our opinion, the accompanying special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Court of Appeal, Second Circuit at June 30, 2000, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2000, on our consideration of the Court of Appeal, Second Circuit's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the court and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

RE:MAN:DSP:dl

[2CIRCRT]

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-
APPROPRIATED FUNDS**

Balance Sheet (Legal Basis), June 30, 2000

	<u>APPROPRIATED FUND - GENERAL APPROPRIATION</u>	<u>NON- APPROPRIATED FUND - FEE ACCOUNT</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
ASSETS			
Cash and cash equivalents	\$19,143	\$824,541	\$843,684
Accounts receivable	671	9,275	9,946
Due from other fund	6,309		6,309
	<u>6,309</u>	<u>9,275</u>	<u>15,584</u>
	<u>26,123</u>	<u>833,816</u>	<u>859,939</u>
TOTAL ASSETS			
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$22,273	\$779	\$23,052
Accrued liabilities	3,850		3,850
Due to other fund		6,309	6,309
Total Liabilities	<u>26,123</u>	<u>7,088</u>	<u>33,211</u>
Fund Equity - fund balance - reserved	<u>NONE</u>	<u>826,728</u>	<u>826,728</u>
	<u>26,123</u>	<u>833,816</u>	<u>859,939</u>
TOTAL LIABILITIES AND FUND EQUITY			

The accompanying notes are an integral part of this statement.

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-
APPROPRIATED FUNDS**

**Statement of Revenues, Expenditures, and
Changes in Fund Balances (Legal Basis)
For the Year Ended June 30, 2000**

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
REVENUES			
Filing fees		\$98,166	\$98,166
Use of money and property - interest earnings	\$7,611	37,406	45,017
Miscellaneous		72,201	72,201
Total revenues	<u>7,611</u>	<u>207,773</u>	<u>215,384</u>
EXPENDITURES			
Appropriated expenditures:			
Personal services	2,332,566		2,332,566
Travel	104,480		104,480
Operating supplies and services	365,515		365,515
Capital outlay	260,195		260,195
Other charges	78,784		78,784
Non-appropriated expenditures:			
Travel		3,634	3,634
Operating supplies and services		8,637	8,637
Association dues		2,702	2,702
Judges' Supplemental Compensation Fund		7,947	7,947
Other charges		49,973	49,973
Total expenditures	<u>3,141,540</u>	<u>72,893</u>	<u>3,214,433</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	<u>(3,133,929)</u>	<u>134,880</u>	<u>(2,999,049)</u>
OTHER FINANCING SOURCES (Uses)			
Transfer from Supreme Court	3,127,620		3,127,620
Operating transfers in	6,309		6,309
Operating transfers out		(6,309)	(6,309)
Total other financing sources (uses)	<u>3,133,929</u>	<u>(6,309)</u>	<u>3,127,620</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	NONE	128,571	128,571
FUND BALANCES AT BEGINNING OF YEAR	<u>NONE</u>	<u>698,157</u>	<u>698,157</u>
FUND BALANCES AT END OF YEAR	<u>NONE</u>	<u>\$826,728</u>	<u>\$826,728</u>

The accompanying notes are an integral part of this statement.

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2000

INTRODUCTION

The Court of Appeal, Second Circuit is a part of the State of Louisiana reporting entity, within the judicial branch of government. The court is provided for in Article V, Sections 8 through 13 of the Louisiana Constitution of 1974 and Sections 311 through 392 of Title 13 of the Louisiana Revised Statutes of 1950. The court's operations are funded through an annual lapsing appropriation made by the Louisiana Legislature and from self-generated revenues authorized by Louisiana Revised Statute (R.S.) 13:352. In addition to the fees mandated by R.S. 13:352 relative to appeals, applications for writs, motions filed on unlogged appeals and answers to appeals, the court, in compliance with Act 63 of the 1985 Session of the Louisiana Legislature and in conformity with the Judges' Supplemental Compensation Fund, charges an additional fee of \$16. The total amount collected in connection with the Judges' Supplemental Compensation Fund is remitted to the Judicial Administrator's Office of the Supreme Court of Louisiana.

The Court of Appeal, Second Circuit has appellate jurisdiction as authorized under Article V, Section 5 of the Louisiana Constitution, which encompasses the parishes of Bienville, Bossier, Caddo, Caldwell, Claiborne, DeSoto, East Carroll, Franklin, Jackson, Lincoln, Madison, Morehouse, Ouachita, Red River, Richland, Tensas, Union, West Carroll, Winn, and Webster. The Court of Appeal, Second Circuit has supervisory jurisdiction, subject to the general supervisory jurisdiction of the Supreme Court of Louisiana, over all lower courts in all cases in which an appeal would extend to the court of appeal. The Second Circuit is domiciled in Shreveport, Louisiana, and has 9 judges and 51 other employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles as explained in the following notes.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The court is considered within the State of Louisiana reporting entity because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the state has control and exercises authority over budget matters; (2) state appropriations provide the largest percentage of total revenues; and

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

(3) the court primarily serves state residents. The accompanying financial statements present information only as to the transactions of the court.

The accompanying financial statements represent activity of the court within the judicial branch of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements. Annually, the State of Louisiana issues general purpose financial statements. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Court of Appeal, Second Circuit uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, general fixed assets, and long-term liabilities are reflected in the State of Louisiana's general purpose financial statements.

The funds presented in the special purpose financial statements are described as follows:

General Appropriation Fund

The General Appropriation Fund provides for the general administrative expenditures of the court.

Non-Appropriated Fund - Fee Account

The Fee Account is used to account for filing fees and other revenues received by the court as provided by R.S. 13:352. Expenditures incurred in excess of the amount appropriated by the legislature (General Appropriation Fund) are funded from this account.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

those resources by the court. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Judicial Budgetary Control Board. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the court and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the court uses the following practices in recognizing revenues and expenditures:

Revenues

Self-generated revenues are recognized when earned.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Furthermore, any expenditure of a long-term nature for which funds have not been appropriated during the current year is not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

The transfer from the Supreme Court represents the appropriation from the state General Fund. The transfer is recognized in the amount appropriated, to the extent withdrawn from the state treasury. Operating transfers are recognized when they become measurable and available.

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (book balances) are composed of the following:

Petty cash	\$100
Cash in demand accounts	343,584
Certificates of deposit	<u>500,000</u>
Total	<u><u>\$843,684</u></u>

Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The court has deposit balances (collected bank balances) of \$939,337 at June 30, 2000, for which the court has control. These deposits are secured from risk by \$200,000 of federal deposit insurance (GASB Risk Category 1) and \$739,337 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GASB Risk Category 3).

F. GENERAL FIXED ASSETS

The court values its general fixed assets at historical cost at the time of acquisition. No depreciation has been provided on general fixed assets. The general fixed assets are not reflected within the accompanying special purpose financial statements. A summary of changes in general fixed assets follows:

	Balance <u>July 1, 1999</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2000</u>
Land	\$606,254			\$606,254
Buildings	3,275,243			3,275,243
Movable property	813,206	\$173,566	\$179,975	806,797
Library books	<u>310,145</u>	<u>16,273</u>		<u>326,418</u>
Total	<u><u>\$5,004,848</u></u>	<u><u>\$189,839</u></u>	<u><u>\$179,975</u></u>	<u><u>\$5,014,712</u></u>

G. LONG-TERM OBLIGATIONS

The court is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the court arising from lease commitments, judgments,

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

compensated absences, or any other source are not recognized in the accompanying special purpose financial statements.

H. BUDGET PRACTICES

The general appropriation made for the operations of the court is an annual lapsing appropriation. Amounts not expended or encumbered should be returned to the state General Fund on or before September 1, 2000.

The court has no encumbrances outstanding at June 30, 2000. The accompanying financial statements do not present a budgetary comparison because the appropriated fund is budgeted in lump sum and the non-appropriated fund is not subject to budgetary control. The appropriation act appropriates to the court any interest that it earns. Budget revisions are granted by the Judicial Budgetary Control Board as provided by Act 537 of 1999. There were no budget amendments to the original appropriation of \$3,127,620 in Act 537.

I. JUDGES' SALARIES

The salaries of the judges are paid directly by the Supreme Court of Louisiana with warrants drawn on the state treasury and are not included in the expenditures of the accompanying financial statements.

J. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. Act 343 of 1993 allows members of the Louisiana State Employees Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement.

The cost of current leave privileges, computed in accordance with GASB Codification Section C60, is recognized as a current-year expenditure in the General Appropriation Fund when leave is actually taken. The liability for unused annual leave payable at June 30, 2000, computed in accordance with the GASB Codification Section C60.105, is estimated to be \$161,461.

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

K. TOTAL COLUMNS ON STATEMENTS

The total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

2. PENSION PLANS

Substantially all employees of the court are members of the Louisiana Clerks Retirement and Relief Fund (LCRRF), the Louisiana State Employees Retirement System (LASERS), or the Social Security System (SSS). The LCRRF and LASERS are statewide cost-sharing, multiple-employer plans administered by separate boards of trustees. Both plans provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by LASERS are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, permanent employees are eligible to participate in the retirement systems, with employee benefits vesting after 10 years of service. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Louisiana Clerks Retirement and Relief Fund, 11745 Bricksome Avenue, Suite B1, Baton Rouge, Louisiana 70816, or by calling (225) 256-6660 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

The contribution requirements of plan members and the court are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.25% (LCRRF) and 7.5% (LASERS) of covered salaries. The state is required to contribute 10% of covered salaries to LCRRF and 12.3% of covered salaries to LASERS. The court's employer contribution is funded by the State of Louisiana through the annual appropriation to the court. The court's employer contributions to LCRRF for the years ended June 30, 2000, 1999, and 1998 were \$25,707, \$25,505, and \$24,494, respectively, and to LASERS for the years ended June 30, 2000, 1999, and 1998 were \$141,888, \$133,714, and \$156,253, respectively, equal to the required contributions for each year for each retirement system.

**3. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The court provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the court's employees become eligible for these benefits if they reach normal retirement age while working for the court. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the court. The court recognized the cost of providing these benefits (court's portion of premiums) as an expenditure when paid during the year. The court's costs of providing retiree health care and life insurance benefits are

**COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA**
Notes to the Financial Statements (Concluded)

recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2000, the cost of retiree benefits totaled \$49,565.

**4. JUDGMENTS, CLAIMS, AND
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

5. RESERVED FOR CONTINUING OPERATIONS

As shown on Statement A, the Non-Appropriated Fund - Fee Account has a reserve for continuing operations totaling \$826,728. These funds may be retained and used to defray the expenditures of the court as prescribed by R.S. 13:352.

6. LEASE OBLIGATIONS

Lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the legislature does not make an appropriation for its continuation during any future fiscal period. Total lease expenditures for fiscal year 1999-2000 amounted to \$11,878.

The annual rental payments for noncancelable operating leases during the next three fiscal years are presented as follows:

<u>Nature of Operating Lease</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Photocopying equipment	\$21,733	\$9,813	\$1,723
Office space	996	498	
Total	<u>\$22,729</u>	<u>\$10,311</u>	<u>\$1,723</u>

7. DEFERRED COMPENSATION PLAN

Certain employees of the court participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, P.O. Box 94397, Baton Rouge, Louisiana 70804-9397.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
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October 30, 2000

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards*

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Shreveport, Louisiana

We have audited the special purpose (legal basis) financial statements of the Court of Appeal, Second Circuit as of and for the year ended June 30, 2000, and have issued our report thereon dated October 30, 2000. We conducted our 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 Court of Appeal, Second Circuit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 our audit and, accordingly, we do not express such an opinion. The results of our 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 our audit, we considered the Court of Appeal, Second Circuit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

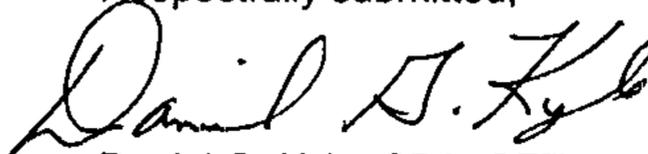
EXHIBIT A

LEGISLATIVE AUDITOR

COURT OF APPEAL, SECOND CIRCUIT
STATE OF LOUISIANA
Compliance and Internal Control Report
October 30, 2000
Page 2

This report is intended solely for the information and use of the Court of Appeal, Second Circuit and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive, flowing style.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

RE:MAN:DSP:dj

[2CIRCRT]

EXHIBIT A