



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUIT  
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA

FINANCIAL STATEMENTS  
WITH ADDITIONAL INFORMATION

For the Years Ended June 30, 2012 and 2011  
Fiscal Years Audited Under GAGAS: 2012 and 2011

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUIT  
YEARS ENDED JUNE 30, 2012 AND 2011

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# Balestra, Harr & Scherer, CPAs, Inc.

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## INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Board  
Public Defender Corporation  
Sixth and Twenty-Fourth Judicial Circuit  
Huntington, West Virginia

We have audited the basic financial statements of the Public Defender Corporation for the Sixth and Twenty-Fourth Judicial Circuit (the "Corporation"), a component unit of the State of West Virginia as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
September 12, 2012

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2012 and 2011

This discussion and analysis of the Public Defender Corporation of the Sixth and Twenty-Fourth Judicial Circuits of the State of West Virginia financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2012 and 2011, and identifies changes in the Corporation's financial position.

**Overview of Basic Financial Statements**

These statements are in two parts – *management's discussion and analysis* (this section) and the *basic financial statements*. The Corporation's financial statements are prepared on the accrual basis of accounting and are reported in accordance with accounting principles generally accepted in the United States of America. These statements include the *statements of net assets*, the *statements of revenues, expenses and changes in net assets*, the *statements of cash flows* and the notes to the financial statements.

The *statement of net assets* presents the Corporation's assets, liabilities and net assets as of the financial statements date. Through this presentation one can decipher the health of the Corporation by taking the difference between the assets and liabilities. An increase or decrease in the Corporation's net assets from one year to the next is an indicator of whether its financial health is improving or deteriorating.

The *statement of revenues, expenses, and changes in net assets* reports revenues and expenses when earned or incurred. This means that all of the current year's revenues and expenses are included regardless of when cash is paid or received, thus providing a view of financial position that is similar to that presented by most private-sector companies. This statement summarizes the cost of providing legal defense services to those individuals charged with a violation of the law but who cannot afford an attorney to defend themselves or to represent indigent persons or juveniles and mental hygiene cases as appointed by the court.

**Financial Analysis of the Corporation**

|                                  | <u>2012</u>       | <u>2011</u>       | <u>2010</u>       |
|----------------------------------|-------------------|-------------------|-------------------|
| Assets                           |                   |                   |                   |
| Capital Assets                   | \$ 186,475        | \$ 31,241         | \$ 25,947         |
| Current Assets                   | 525,414           | 278,391           | 244,222           |
| Total Assets                     | <u>\$ 711,889</u> | <u>\$ 309,632</u> | <u>\$ 270,169</u> |
| Liabilities                      |                   |                   |                   |
| Long-term Liabilities            | \$ 373,711        | \$ 217,293        | \$ 162,043        |
| Current Liabilities              | 70,770            | 76,586            | 73,396            |
| Total Liabilities                | <u>444,481</u>    | <u>293,879</u>    | <u>235,439</u>    |
| Net Assets (Deficit)             |                   |                   |                   |
| Invested in Capital Assets       | 186,475           | 31,241            | 25,947            |
| Unrestricted (Deficit)           | 80,933            | (15,488)          | 8,783             |
| Total Liabilities and Net Assets | <u>\$ 711,889</u> | <u>\$ 309,632</u> | <u>\$ 270,169</u> |

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2012 and 2011

The Corporation's revenues are derived from funding from West Virginia Public Defender Services (WVPDS) and accordingly 100% of the Corporation's operating revenues were derived from this funding for the years ended June 30, 2012, 2011 and 2010.

|                                     | <u>2012</u>       | <u>2011</u>      | <u>2010</u>      |
|-------------------------------------|-------------------|------------------|------------------|
| Operating revenues                  | \$ 2,242,589      | \$ 1,919,055     | \$ 1,774,829     |
| Operating expenses                  | 1,991,282         | 1,938,392        | 1,840,471        |
| Operating gain (loss)               | <u>251,307</u>    | <u>(19,337)</u>  | <u>(65,642)</u>  |
| Nonoperating revenue                | <u>348</u>        | <u>360</u>       | <u>560</u>       |
| Change in net assets                | 251,655           | (18,977)         | (65,082)         |
| Net assets at beginning of year     | <u>15,753</u>     | <u>34,730</u>    | <u>99,812</u>    |
| Net assets (deficit) at end of year | <u>\$ 267,408</u> | <u>\$ 15,753</u> | <u>\$ 34,730</u> |

#### Detailed Financial Analysis of the Corporation

Cash held by the Corporation increased by approximately \$247,000 due to increased grant revenue from WVPDS. Total capital assets increased by approximately \$174,500 due to the purchase of a new building for the Wayne County office. Other post-employment benefit liability, included in long term post employment benefit liabilities, increased by approximately \$156,500 due to an increase in the rate charged by the Retiree Health Benefit Trust (RHBT) fund and a reduction in the amount of contribution of on-behalf revenue by the State of West Virginia. All other assets and liabilities remained consistent with the two periods.

Operating revenue for the fiscal year increased by approximately \$323,500, due to increased funding from WVPDS.

Operating expenses for the fiscal year increased by approximately \$53,000. This increase is attributable to an increase in personal services of approximately \$20,000 due to salary increases given throughout the Corporation. The increase in operating expenses is also due to an increase in employee benefits of approximately \$34,000, which is due to Corporation making significant contributions to OPEB during the fiscal year. All other expenses remained consistent with the prior fiscal year.

#### Capital Asset and Debt Activity

As of June 30, 2012, 2011 and 2010, the Corporation had capital assets amounting to approximately \$454,500, \$280,000 and \$259,000, respectively. The Corporation's capital assets include land, buildings, furniture, fixtures, computer equipment and leasehold improvements. The assets were being depreciated over useful lives of three to thirty-nine years. The accumulated depreciation at June 30, 2012, 2011 and 2010 on the assets amounted to approximately \$268,000, \$249,000 and \$233,000, respectively. There were no disposals during the current year.

Purchases of capital assets for the years ended June 30, 2012, 2011 or 2010 totaled approximately \$174,000, \$22,000 and \$0, respectively.

The Corporation has no long term debt obligations other than the other post employment benefit liability.

More detailed information is presented in the notes to the financial statements.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2012 and 2011

**Cash Management**

The Corporation's funds are deposited into a checking account at a national banking institution. The account earns interest at a rate of .15%. Interest earned on the accounts for the years ended June 30, 2012, 2011 and 2010 amounted to approximately \$348, \$360 and \$560, respectively.

**Economic Factors and Next Year's Budget**

The West Virginia Public Defender Services, the Corporation's oversight agency, looked at various factors when approving the budget for the year ending June 30, 2013. Such factors considered include: the Corporation's case load in comparison to the number of professional and nonprofessional staff, the type, amount and rate of employee benefits, the anticipation of large or unusual cases which require additional resources, capital needs, as well as the operating environment and its operation needs.

For the year ending June 30, 2013, the Corporation had an approved budget of \$1,826,141. This represents a budget decrease of approximately \$256,500 from the prior year. This decrease is attributable to adjustments in the prior year to purchase a building and to make improvements to the satellite office in Wayne County.

**Requests for Information**

The financial report is designed to provide an overview of the finances of the Corporation for those with an interest in the organization. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Corporation at 320 Ninth Street, Huntington, West Virginia 25701-0588.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
STATEMENTS OF NET ASSETS  
JUNE 30, 2012 AND 2011

|   | <u>2012</u>       | <u>2011</u>       |
|---|-------------------|-------------------|
| <b>ASSETS</b>                           |                   |                   |
| Current assets                          |                   |                   |
| Cash and cash equivalents               | \$ 513,314        | \$ 266,291        |
| Other assets                            | 12,100            | 12,100            |
| Total current assets                    | <u>525,414</u>    | <u>278,391</u>    |
| Capital assets                          |                   |                   |
| Land                                    | 12,500            | -                 |
| Building                                | 112,986           | -                 |
| Leasehold improvements                  | 61,308            | 12,364            |
| Furniture and fixtures                  | 50,771            | 50,771            |
| Computer Equipment                      | 217,016           | 217,016           |
|   | <u>454,581</u>    | <u>280,151</u>    |
| Less accumulated depreciation           | <u>(268,106)</u>  | <u>(248,910)</u>  |
| Capital assets, net                     | <u>186,475</u>    | <u>31,241</u>     |
| Total assets                            | <u>\$ 711,889</u> | <u>\$ 309,632</u> |
| <b>LIABILITIES</b>                      |                   |                   |
| Current liabilities                     |                   |                   |
| Accounts payable                        | \$ -              | \$ 3,919          |
| Accrued expenses                        | 19,988            | 24,138            |
| Compensated absences                    | 50,782            | 48,529            |
| Total current liabilities               | <u>70,770</u>     | <u>76,586</u>     |
| Long term liabilities                   |                   |                   |
| Other post employment benefit liability | <u>373,711</u>    | <u>217,293</u>    |
| Total long term liabilities             | <u>373,711</u>    | <u>217,293</u>    |
| Total liabilities                       | <u>444,481</u>    | <u>293,879</u>    |
| <b>NET ASSETS</b>                       |                   |                   |
| Invested in capital assets,             | 186,475           | 31,241            |
| Unrestricted                            | <u>80,933</u>     | <u>(15,488)</u>   |
| Total net assets                        | <u>\$ 267,408</u> | <u>\$ 15,753</u>  |

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2012 AND 2011

|  | <u>2012</u>              | <u>2011</u>             |
|--|--------------------------|-------------------------|
| Operating revenues                                   |                          |                         |
| West Virginia Public Defender Services Grant Revenue | <u>\$ 2,242,589</u>      | <u>\$ 1,919,055</u>     |
| Total operating revenues                             | <u>2,242,589</u>         | <u>1,919,055</u>        |
| Operating expenses                                   |                          |                         |
| Personal services                                    | 1,078,589                | 1,058,510               |
| Employee benefits                                    | 537,821                  | 503,675                 |
| Support services                                     | 173,574                  | 167,543                 |
| Administrative support                               | 20,602                   | 30,749                  |
| Office   | 136,746                  | 154,500                 |
| Other  | 17,738                   | 6,513                   |
| Acquisition  | 7,016                    | 598                     |
| Depreciation   | <u>19,196</u>            | <u>16,304</u>           |
| Total operating expenses                             | <u>1,991,282</u>         | <u>1,938,392</u>        |
| Operating gain (loss)                                | 251,307                  | (19,337)                |
| Nonoperating revenues (expenses)                     |                          |                         |
| Interest income                                      | <u>348</u>               | <u>360</u>              |
| Total nonoperating revenues (expenses)               | <u>348</u>               | <u>360</u>              |
| CHANGE IN NET ASSETS                                 | 251,655                  | (18,977)                |
| Net assets, beginning of year                        | <u>15,753</u>            | <u>34,730</u>           |
| Net assets, end of year                              | <u><u>\$ 267,408</u></u> | <u><u>\$ 15,753</u></u> |

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011

|   | <u>2012</u>       | <u>2011</u>       |
|---|-------------------|-------------------|
| Cash flows from operating activities  |                   |                   |
| Cash received from grants   | \$ 2,242,589      | \$ 1,919,055      |
| Cash paid to suppliers for goods and services                                       | (359,595)         | -                 |
| Cash paid to employees  | (1,461,889)       | (1,863,648)       |
| Net cash provided by operating activities   | <u>421,105</u>    | <u>55,407</u>     |
| Cash flows from investing activities  |                   |                   |
| Cash received as interest   | 348               | 360               |
| Cash purchases of property and equipment  | (174,430)         | (21,598)          |
| Net cash provided (used) by investing activities                                    | <u>(174,082)</u>  | <u>(21,238)</u>   |
|   |                   |                   |
| NET INCREASE (DECREASE) IN CASH<br>AND CASH EQUIVALENTS                             | 247,023           | 34,169            |
| Cash and cash equivalents, beginning of year  | <u>266,291</u>    | <u>232,122</u>    |
| Cash and cash equivalents, end of year  | <u>\$ 513,314</u> | <u>\$ 266,291</u> |
|   |                   |                   |
| Reconciliation of operating (loss) to net cash<br>provided by operating activities: |                   |                   |
| Operating gain (loss)   | \$ 251,307        | \$ (19,337)       |
| Adjustments:  |                   |                   |
| Depreciation  | 19,196            | 16,304            |
| Increase (decrease) in operating liability  |                   |                   |
| Accounts payable  | (3,919)           | (105)             |
| Accrued expenses  | (4,150)           | 1,357             |
| Compensated absences  | 2,253             | 1,938             |
| Other post employment benefit liability   | 156,418           | 55,250            |
| Total adjustments   | <u>169,798</u>    | <u>74,744</u>     |
| Net cash provided by operating activities   | <u>\$ 421,105</u> | <u>\$ 55,407</u>  |

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 1 - ORGANIZATION

The Public Defender Corporation for the Sixth and Twenty-Fourth Judicial Circuits (the 'Corporation') is a not-for-profit Corporation created under authority of Article 21, Chapter 29 of the West Virginia State Code. The Corporation is a discretely presented component unit of the State of West Virginia and is funded by West Virginia Public Defender Services. The purpose of the Corporation is to provide high quality legal assistance to indigent persons, at no cost, who would be otherwise unable to afford adequate legal counsel.

Approximately 89% of the Corporation's revenues are utilized for program related purposes and 11% are for management and general purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The financial statement presentation required by GASB Statements No. 34 provides a comprehensive, entity-wide perspective of the Corporation's assets, revenues, expenses, changes in net assets and cash flows.

The Corporation follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

Reporting Entity

The Corporation is a component unit of the State of West Virginia and is funded by West Virginia Public Defender Services. The West Virginia Public Defender Services is part of the general fund of the state's comprehensive annual financial report. The Corporation is a separate entity and is considered a discretely presented component unit of the State of West Virginia.

Financial Statement Presentation

As required by GASB 34, the Corporation displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted:

Invested in capital assets

This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets

Restricted net assets are assets whose use or availability has been restricted and the restrictions limit the Corporation's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as needed.

Unrestricted net assets

Unrestricted net assets represent resources derived from state appropriations. These resources are used for transactions related to the providing of legal assistance to indigent persons, at no cost, who would otherwise be unable to afford adequate legal counsel, and may be used at the discretion of the board of directors to meet current expenses for any purpose.

Basis of Accounting

For financial accounting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses when materials or services are received.

Cash and Cash Equivalents

For purposes of the statement of net assets, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets include furniture and fixtures and computer equipment. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to thirty-nine years. The Corporation's capitalization threshold is \$1,000. Depreciation expense for the years ended June 30, 2012 and 2011 was \$19,196 and \$16,304, respectively.

Compensated Absences and Other Post-Employment Benefits (OPEB)

Effective July 1, 2007, the Corporation adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provides standards for the measurement, recognition, and display of other postemployment benefit ("OPEB") expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, the

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Corporation was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. The Plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPB) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (“PEIA”), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://www.wvpeia.com>.

This statement requires entities to accrue for employees’ rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Estimated obligations arise for vacation leave at the current rate of employee pay. Employees vest an unlimited accumulation of unused vacation leave which is paid at the time of separation from employment. Full-time employees also earn 18 sick days per year of service with an unlimited maximum accumulation for any fiscal year period. The Corporation does not accrue any liability for sick leave because no amount is paid at the time of separation of employment. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

The estimated expense and expense incurred for the vacation leave and OPEB benefits are recorded as a component of employee benefits on the statement of revenues, expenses and changes in net assets. OPEB costs are accrued based upon invoices received from RHBT Trust Fund based upon actuarial determined amounts. At June 30, 2012 and 2011, the noncurrent liability related to OPEB cost was \$373,711 and \$217,293, respectively. For the years ended June 30, 2012 and 2011, the total OPEB expense incurred was \$156,418 and \$177,407, respectively which is included as a component of employee benefit expense. As of the years ended June 30, 2012 and 2011, there were no retirees receiving these benefits.

Risk Management

The Corporation obtained general, property and casualty, and liability coverage for itself and its employees from a third party insurance company. Any loss in excess of \$2,000,000 policy limit will be the responsibility of the Corporation.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, the Corporation has obtained health, life, prescription drug coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the Corporation has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

West Virginia had a single private insurance company, BrickStreet Insurance, which provided workers' compensation coverage to all employers in the state. Other private insurance companies began to offer coverage to private-sector employers July 1, 2008 and began to offer coverage to government employers beginning July 1, 2010. Nearly every employer in the State, who has a payroll, must have coverage. The cost of all coverage is paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

Revenues

The Corporation has classified its revenues according to the following criteria:

- Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as most federal, state, local, and nongovernmental grants and contracts.
- Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34, such as state appropriations and investment income.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation is classified by the Internal Revenue Service as an other than a private foundation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 3 - CAPITAL ASSETS

The following is a summary of capital asset transactions for the Corporation for the year ended June 30, 2012 and 2011:

|                                       | 2012                 |                 |           |                   |
|---------------------------------------|----------------------|-----------------|-----------|-------------------|
|                                       | Beginning<br>Balance | Additions       | Deletions | Ending<br>Balance |
| Capital assets not being depreciated: |                      |                 |           |                   |
| Land                                  | \$ -                 | \$ 12,500       | \$ -      | \$ 12,500         |
| Capital assets being depreciated:     |                      |                 |           |                   |
| Computer equipment                    | 217,016              | -               | -         | 217,016           |
| Building                              | -                    | 112,986         | -         | 112,986           |
| Leasehold improvements                | 12,364               | 48,944          | -         | 61,308            |
| Furniture and fixtures                | 50,771               | -               | -         | 50,771            |
| <b>Total capital assets</b>           | <b>280,151</b>       | <b>174,430</b>  | <b>-</b>  | <b>454,581</b>    |
| Less accumulated depreciation for:    |                      |                 |           |                   |
| Computer equipment                    | (194,071)            | (9,115)         | -         | (203,186)         |
| Building                              | -                    | (1,931)         | -         | (1,931)           |
| Leasehold improvements                | (9,553)              | (4,839)         | -         | (14,392)          |
| Furniture and fixtures                | (45,286)             | (3,311)         | -         | (48,597)          |
| <b>Total accumulated depreciation</b> | <b>(248,910)</b>     | <b>(19,196)</b> | <b>-</b>  | <b>(268,106)</b>  |
| <b>Capital assets, net</b>            | <b>31,241</b>        | <b>155,234</b>  | <b>-</b>  | <b>186,475</b>    |
|                                       |                      |                 |           |                   |
|                                       | 2011                 |                 |           |                   |
|                                       | Beginning<br>Balance | Additions       | Deletions | Ending<br>Balance |
| Capital assets being depreciated:     |                      |                 |           |                   |
| Computer equipment                    | 195,418              | 21,598          | -         | 217,016           |
| Leasehold improvements                | 12,364               | -               | -         | 12,364            |
| Furniture and fixtures                | 50,771               | -               | -         | 50,771            |
| <b>Total capital assets</b>           | <b>258,553</b>       | <b>21,598</b>   | <b>-</b>  | <b>280,151</b>    |
| Less accumulated depreciation for:    |                      |                 |           |                   |
| Computer equipment                    | (182,988)            | (11,083)        | -         | (194,071)         |
| Leasehold improvements                | (7,642)              | (1,911)         | -         | (9,553)           |
| Furniture and fixtures                | (41,976)             | (3,310)         | -         | (45,286)          |
| <b>Total accumulated depreciation</b> | <b>(232,606)</b>     | <b>(16,304)</b> | <b>-</b>  | <b>(248,910)</b>  |
| <b>Capital assets, net</b>            | <b>25,947</b>        | <b>5,294</b>    | <b>-</b>  | <b>31,241</b>     |

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 4 - DEFINED BENEFITS RETIREMENT PLAN

The Corporation contributes to the West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board. Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees. Employees who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, death and disability benefits to plan members and beneficiaries. The West Virginia Consolidated Public Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the West Virginia Consolidated Public Retirement Board, 1900 Kanawha Boulevard East, Building Five, Charleston, West Virginia 25305 or by calling (304) 558-3570.

FUNDING POLICY – The PERS funding policy has been established by action of the State Legislature. State statute requires that plan participants contribute 4.5% of compensation. The current combined contribution rate is 19% of annual covered payroll, including the Corporation's contribution of 14.5% which is established by PERS. Effective July 1, 2012, a decrease in the contribution rate of .5% will lower the Corporation's contribution rate to 14%. Total contributions to PERS for the years ended June 30, 2012, 2011, and 2010 were \$201,106, \$178,035 and \$158,076, respectively, which consisted of \$153,476, \$130,907 and \$112,183 from the Corporation and \$47,630, \$47,127 and \$45,893 from the covered employees, respectively.

Under the Plan guidelines, if an employee is hired by the Corporation and joins the Plan after they have been previously employed by another state agency, this employee has the ability to make a retroactive purchase of prior service time or "buy-back". Under the current contract with the West Virginia Public Defender Services office of the State of West Virginia, the Corporation will only fund the employer portion of such buy-backs on a case by case scenario after consideration by the West Virginia Public Defender Services. West Virginia Public Defender Services expressly declines to purchase retroactive service credit. For the years ended June 30, 2012 and 2011, the Corporation did not authorize the employer portion of any buy-backs for Plan participants.

NOTE 5 - CONCENTRATIONS

The Corporation maintains its account balances in a local financial institution. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Corporation's bank balance at June 30, 2012 and 2011 was \$543,595 and \$281,835, respectively.

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 5 - CONCENTRATIONS (Continued)

The Corporation receives virtually all of its funding from West Virginia Public Defender Services. A significant reduction in this level of support would have a significant adverse effect on the Corporation.

NOTE 6 - LONG TERM LIABILITIES

The following is a summary of long term obligation transactions for the Corporation for the years ended June 30, 2012 and 2011:

|  | Beginning<br>Balance | Additions         | 2012<br>Reductions | Ending<br>Balance | Current<br>Portion |
|--|----------------------|-------------------|--------------------|-------------------|--------------------|
| Long term liabilities:                   |                      |                   |                    |                   |                    |
| Other post employment benefits liability | \$ 217,293           | \$ 156,418        | \$ -               | \$ 373,711        | \$ -               |
| Compensated absences                     | <u>48,529</u>        | <u>2,253</u>      | <u>-</u>           | <u>50,782</u>     | <u>50,782</u>      |
| Total capital assets                     | <u>\$ 265,822</u>    | <u>\$ 158,671</u> | <u>\$ -</u>        | <u>\$ 424,493</u> | <u>\$ 50,782</u>   |
|  |                      |                   |                    |                   |                    |
|  | Beginning<br>Balance | Additions         | 2011<br>Reductions | Ending<br>Balance | Current<br>Portion |
| Long term liabilities:                   |                      |                   |                    |                   |                    |
| Other post employment benefits liability | \$ 162,043           | \$ 177,407        | \$ 122,157         | \$ 217,293        | \$ -               |
| Compensated absences                     | <u>46,591</u>        | <u>1,938</u>      | <u>-</u>           | <u>48,529</u>     | <u>48,529</u>      |
| Total capital assets                     | <u>\$ 208,634</u>    | <u>\$ 179,345</u> | <u>\$ 122,157</u>  | <u>\$ 265,822</u> | <u>\$ 48,529</u>   |

NOTE 7 - OPERATING LEASE OBLIGATIONS

The Corporation leases various equipment and facilities under operating lease agreements. Aggregate payments under these agreements were \$12,705 and \$21,364 for the years ended June 30, 2012 and 2011. Future minimum rental commitments are as follows:

PUBLIC DEFENDER CORPORATION  
FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUITS  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 and 2011

NOTE 8 - CONTINGENCIES

The Corporation is on a reimbursement plan with the State of West Virginia, Workforce WV, Unemployment Compensation Division, (Workforce) whereby they no longer pay quarterly premiums. When a liability arises regarding the payment of unemployment, the Corporation will be assessed 100% of the awarded claim filed and payment to Workforce would be made at that time. Any liability arising from the dismissal of employment is uncertain at this time; however, management believes such amounts if any to be immaterial.

The Corporation's programs are funded from state sources, principal of which is programs of the West Virginia Public Defender Services. State grants received for specific purposes are subject to audit and review by grantor agencies. Such audits and reviews could result in requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. The amount, if any, of expenditures which may be disallowed by grantor agencies cannot be determined at this time, although management believes such amounts, if any, to be immaterial.

NOTE 9 - CASH HELD AT FISCAL YEAR END

At June 30, 2012 and 2011, the Corporation held cash and cash equivalents of \$513,314 and \$266,291, respectively, consisting of unexpended West Virginia Public Defender Service grant funds. West Virginia Public Defender Services considered this amount in determining the succeeding fiscal year necessary to fund the Corporation's normal operating activities.



## Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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### INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Members of the Board  
Public Defender Corporation  
for the Sixth and Twenty-Fourth Judicial Circuit  
Huntington, West Virginia

Our report on our audit of the basic financial statements of the Public Defender Corporation for the Sixth and Twenty-Fourth Judicial Circuit for the year ended June 30, 2012 appears on pages 1 and 2. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of budget to actual expenses – cash basis provides additional analysis and is not a required part of the basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
September 12, 2012

PUBLIC DEFENDER CORPORATION  
 FOR THE SIXTH AND TWENTY-FOURTH JUDICIAL CIRCUIT  
 SCHEDULE OF BUDGET TO ACTUAL EXPENSES - CASH BASIS  
 YEAR ENDED JUNE 30, 2012

|                         | <u>Budget</u>                  | <u>Actual</u>                  | Under/(Over)<br>Budget to<br><u>Actual</u> |
|-------------------------|--------------------------------|--------------------------------|--|
| Personal services       | \$ 1,103,926                   | \$ 1,078,589                   | \$ 25,337                                  |
| Employee benefits       | 395,449                        | 387,219                        | 8,230                                      |
| Support services        | 178,399                        | 173,574                        | 4,825                                      |
| Administrative services | 25,750                         | 20,602                         | 5,148                                      |
| Office                  | 154,015                        | 136,746                        | 17,269                                     |
| Other                   | 18,300                         | 17,738                         | 562  |
| Acquisitions            | <u>206,750</u>                 | <u>181,446</u>                 | <u>25,304</u>                              |
| <br>Total               | <br><u><u>\$ 2,082,589</u></u> | <br><u><u>\$ 1,995,914</u></u> | <br><u><u>\$ 86,675</u></u>                |



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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Honorable Members of the Board  
Public Defender Corporation  
for the Sixth and Twenty-Fourth Judicial Circuit  
Huntington, West Virginia

We have audited the basic financial statements of the Public Defender Corporation for the Sixth and Twenty-Fourth Judicial Circuit (the "Corporation"), a component unit of the State of West Virginia, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies, resulting in more than a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Corporation's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Public Defender Corporation for the Sixth and Twenty-Fourth Judicial Circuit Board of Directors, management of the Corporation, West Virginia Public Defender Services, and state awarding agencies. We intend it for no one other than these specified parties.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
September 12, 2012