



# 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 TWENTY-EIGHTH JUDICIAL CIRCUIT  
A COMPONENT UNIT OF THE STATE OF WEST VIRGINIA

FINANCIAL STATEMENTS  
WITH ADDITIONAL INFORMATION

For the Years Ended June 30, 2015 and 2014  
Fiscal Years Audited Under GAGAS: 2015 and 2014

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
YEARS ENDED JUNE 30, 2015 AND 2014

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# Balestra, Harr & Scherer, CPAs, Inc.

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## INDEPENDENT AUDITOR'S REPORT

Public Defender Corporation  
Twenty-Eighth Judicial Circuit  
723 Main Street  
Summersville, West Virginia 26651

To the Board of Directors:

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Public Defender Corporation for the Twenty-Eighth Judicial Circuit (the "Corporation"), a component unit of the State of West Virginia as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Corporation's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Public Defender Corporation for the Twenty-Eighth Judicial Circuit, a component unit of the State of West Virginia as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As described in Note 9 to the financial statements, during the year ended June 30, 2015, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Accounting principles generally accepted in the United States of America require the information related to the defined benefit pension plan on pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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, to 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 express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015, 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 and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Huntington, West Virginia  
December 28, 2015

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2015 and 2014  
(Unaudited)

This discussion and analysis of the Public Defender Corporation of the Twenty-Eighth Judicial Circuit of the State of West Virginia's financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2015 and 2014, 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 position, the statements of revenues, expenses and changes in net position, the statements of cash flows and the notes to the financial statements.

The Statement of Net Position presents the Corporation's assets, liabilities and net position 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 position 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 Position 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.

PUBLIC DEFENDER CORPORATION  
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(Unaudited)

**Financial Analysis of the Corporation**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Capital assets	\$ 33,303	\$ 40,728	\$ 38,157
Other assets	<u>116,895</u>	<u>112,072</u>	<u>120,912</u>
Total Assets	<u>150,198</u>	<u>152,800</u>	<u>159,069</u>
 Deferred Outflows of Resources	 <u>-</u>	 <u>29,213</u>	 <u>-</u>
<b>Liabilities</b>			
Long-term liabilities	190,193	263,934	117,634
Short-term liabilities	<u>13,537</u>	<u>16,929</u>	<u>22,412</u>
Total Liabilities	<u>203,730</u>	<u>280,863</u>	<u>140,046</u>
 Deferred Inflows of Resources	 <u>61,085</u>	 <u>-</u>	 <u>-</u>
<b>Net Position</b>			
Net investment in capital assets	33,303	40,728	38,157
Unrestricted	<u>(147,920)</u>	<u>(139,578)</u>	<u>(19,134)</u>
Total net position	<u>\$ (114,617)</u>	<u>\$ (98,850)</u>	<u>\$ 19,023</u>

During 2015, the Corporation adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Corporation's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting got pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund the plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of the West Virginia consolidated pension system and state law governing the system requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Corporation's share of the plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
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YEARS ENDED JUNE 30, 2015 and 2014  
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2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for-benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Corporation is not responsible for certain key factors affecting the balance of this liability. In West Virginia, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are captured by State statute. A change in these caps requires legislative action. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In West Virginia, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Corporation’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of the plan’s change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68 and GASB 71, the Corporation is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

The Corporation’s revenues are derived from funding from West Virginia Public Defender Services (WVPDS) and accordingly 100% of the Corporation’s revenues were derived from this funding for the years ended June 30, 2015, 2014 and 2013.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2015 and 2014  
(Unaudited)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenue	\$ 329,810	\$ 330,864	\$ 377,439
Operating expenses	<u>345,603</u>	<u>448,763</u>	<u>376,652</u>
Operating (loss) income	<u>(15,793)</u>	<u>(117,899)</u>	<u>787</u>
Non-operating revenue	<u>26</u>	<u>26</u>	<u>44</u>
Change in net position	<u>(15,767)</u>	<u>(117,873)</u>	<u>831</u>
Net position beginning of year	<u>(98,850)</u>	<u>19,023</u>	<u>18,192</u>
Net position at end of year	<u>\$ (114,617)</u>	<u>\$ (98,850)</u>	<u>\$ 19,023</u>

**Detailed Financial Analysis of the Corporation**

Cash held by the Corporation decreased by approximately \$23,500 primarily as a result of an increase in accounts receivable. Accrued expenses increased by approximately \$800 due to timing of payroll-related expenses. Accounts receivable increased by approximately \$28,000 primarily as a result of the June grant payment from the West Virginia Public Defender Services being sent late in the year. Pension liability decreased by approximately \$85,000 and deferred inflows of resources increased by approximately \$61,000 due to the implementation of GASB 68. All other assets and liabilities remained basically consistent with the prior period.

As a result of the June grant payment being late, operating revenues decreased by approximately \$1,000.

Operating expenses for the fiscal year decreased by approximately \$103,000. This decrease is mostly attributable to a decrease in pension expense relating to the implementation of GASB 68 (\$107,000).

PUBLIC DEFENDER CORPORATION  
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YEARS ENDED JUNE 30, 2015 and 2014  
(Unaudited)

**Capital Asset and Debt Activity**

As of June 30, 2015, 2014, and 2013, the Corporation had capital assets amounting to approximately \$106,500, \$103,900, and \$92,700, respectively. The Corporation's capital assets include land, building, furniture and fixtures, office and computer equipment. The assets were being depreciated over useful lives of three to twenty-five years. The accumulated depreciation on the assets amounted to approximately \$73,200, \$63,200 and \$54,600, respectively. There were no disposals of capital assets in the current year. Purchase of capital assets for the years ended June 30, 2015, 2014 and 2013 totaled approximately \$2,600, \$11,200, and \$4,300, respectively. The Corporation has no long term debt obligations other than the other post-employment benefit liability and deferred inflows of resources relating to pensions. More detailed information is presented in the notes to the financial statements.

**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 approximately 0.10% to 0.20% for the years ended June 30, 2015, 2014 and 2013, respectively. Interest earned on the account for the years ended June 30, 2015, 2014, and 2013 amounted to approximately \$25, \$25, and \$45, 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, 2016. 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, 2016, the Corporation had an approved budget of \$319,936. This represents a budget with a decrease of approximately \$10,000 from the prior year original budget.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEARS ENDED JUNE 30, 2015 and 2014  
(Unaudited)

**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: 723 Main Street, Summersville, WV 26651.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
STATEMENTS OF NET POSITION  
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 88,692	\$ 112,072
Accounts receivable	28,203	-
Total current assets	<u>116,895</u>	<u>112,072</u>
Capital assets		
Land	3,000	3,000
Building	63,597	63,597
Furniture and fixtures	13,326	12,756
Computer Equipment	26,590	24,590
	<u>106,513</u>	<u>103,943</u>
Less accumulated depreciation	<u>(73,210)</u>	<u>(63,215)</u>
Capital assets, net	<u>33,303</u>	<u>40,728</u>
Total assets	<u>150,198</u>	<u>152,800</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Contributions subsequent to measurement date	<u>-</u>	<u>29,213</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>29,213</u>
<b>LIABILITIES</b>		
Current liabilities		
Accrued expenses	3,753	2,914
Compensated absences	9,784	14,015
Total current liabilities	<u>13,537</u>	<u>16,929</u>
Long term liabilities		
Pension liability	57,744	142,634
Other post employment benefit liability	132,449	121,300
Total long term liabilities	<u>190,193</u>	<u>263,934</u>
Total liabilities	<u>203,730</u>	<u>280,863</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	<u>61,085</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>61,085</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets,	33,303	40,728
Unrestricted	<u>(147,920)</u>	<u>(139,578)</u>
Total net position	<u>\$ (114,617)</u>	<u>\$ (98,850)</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
West Virginia Public Defender Services Grant Revenue	\$ 329,810	\$ 330,864
Total operating revenues	<u>329,810</u>	<u>330,864</u>
Operating expenses		
Personal services	213,058	206,151
Employee benefits	82,812	89,344
Pension expense	6,185	113,421
Support services	6,788	4,673
Administrative support	5,163	6,247
Office	19,014	16,637
Other	2,169	3,663
Acquisition	419	-
Depreciation	9,995	8,627
Total operating expenses	<u>345,603</u>	<u>448,763</u>
Operating gain (loss)	(15,793)	(117,899)
Nonoperating revenues (expenses)		
Interest income	<u>26</u>	<u>26</u>
Total nonoperating revenues (expenses)	<u>26</u>	<u>26</u>
CHANGE IN NET POSITION	(15,767)	(117,873)
Net position, beginning of year	<u>(98,850)</u>	<u>19,023</u>
Net position, end of year	<u>\$ (114,617)</u>	<u>\$ (98,850)</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from grants	\$ 301,607	\$ 330,864
Cash paid to suppliers for goods and services	(105,154)	(119,751)
Cash paid to employees	(217,289)	(205,147)
Net cash provided by operating activities	<u>(20,836)</u>	<u>5,966</u>
Cash flows from investing activities		
Cash received as interest	26	26
Cash purchases of property and equipment	(2,570)	(14,832)
Net cash (used) by investing activities	<u>(2,544)</u>	<u>(14,806)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,380)	(8,840)
Cash and cash equivalents, beginning of year	<u>112,072</u>	<u>120,912</u>
Cash and cash equivalents, end of year	<u>\$ 88,692</u>	<u>\$ 112,072</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating gain (loss)	\$ (15,793)	\$ (117,899)
Adjustments:		
Depreciation	9,995	8,627
Decrease (increase):		
Accounts receivable	(28,203)	-
Deferred outflows	29,213	(29,213)
Increase (decrease):		
Pension liability	(84,890)	142,634
Deferred inflows	61,085	-
Accrued expenses	839	4,479
Compensated absences	(4,231)	1,004
Other post employment benefit liability	11,149	(3,666)
Total adjustments	<u>(5,043)</u>	<u>123,865</u>
Net cash provided by operating activities	<u>\$ (20,836)</u>	<u>\$ 5,966</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 1 – ORGANIZATION**

The Public Defender Corporation for the Twenty-Eighth Judicial Circuit (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 90% of the Corporation's revenues are utilized for program related purposes and 10% are for management and general purposes.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Corporation's accounting principles are described below.

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.

Net Position

Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The Corporation did not have any outstanding borrowings as noted above for the year ended June 30, 2015. Net Position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Corporation did not have any restricted net position for the year ended June 30, 2015.

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.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

For purposes of the statement of net position, 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, fixtures, computer equipment, and leasehold improvements. 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 accelerated and straight-line methods over the estimated useful lives of the assets, generally 3 to 25 years. The Corporation's capitalization threshold is \$1,000. Depreciation expense for the years ended June 30, 2015 and 2014 was \$9,995 and \$8,627, 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 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 with less than 5 years of continuous full-time employment during any period earn 15 days per year. Employees with 5 years or more, earn 20 days per year.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Compensated Absences and Other Post Employment Benefits (OPEB) (Continued)

Also, the Corporation grants sick leave based on time worked. Full-time employees earn 18 sick leave days per year, but can carryover 30 days. 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 position. OPEB costs are accrued based upon invoices received from RHBT Trust Fund based upon actuarial determined amounts. At June 30, 2015 and 2014, the noncurrent liability related to OPEB cost was \$132,499 and \$121,300. The total OPEB expense incurred was \$0 and \$94, which is included as a component of employee benefit expense. As of the years ended June 30, 2015 and 2014, there were no retirees receiving these benefits.

Risk Management

The Corporation has obtained general, property, casualty and liability coverage for itself and its employees through a third party insurance company. Any loss in excess of the \$1,000,000 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, and 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.

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.

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 a non-private foundation.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Sources

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.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Public Employees Retirement System (the PERS plan), and additions to/deductions from the PERS Plans' fiduciary net position have been determined on the same basis as they are reported by the PERS Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 3 – CAPITAL ASSETS**

The following is a summary of capital asset transactions for the Corporation for the year ended June 30, 2015 and 2014:

	2015			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital Assets not being depreciated:				
Land	\$ 3,000	\$ -	\$-	\$ 3,000
Capital Assets being depreciated:				
Computer Equipment	24,590	2,000	-	26,590
Building	63,597	-	-	63,597
Furniture and Fixtures	12,756	570	-	13,326
Total Capital Assets	<u>103,943</u>	<u>2,570</u>	<u>-</u>	<u>106,513</u>
Less Accumulated depreciation for:				
Computer Equipment	(16,085)	(3,625)	-	(19,710)
Building	(44,797)	(3,316)	-	(48,113)
Furniture and Fixtures	(2,333)	(3,054)	-	(5,387)
Total Accumulated Depreciation	<u>(63,215)</u>	<u>(9,995)</u>	<u>-</u>	<u>(73,210)</u>
Capital Assets, Net	<u>\$ 40,728</u>	<u>\$(7,425)</u>	<u>\$-</u>	<u>\$ 33,303</u>

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 3 – CAPITAL ASSETS (Continued)**

	2014			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 3,000	\$ -	\$-	\$ 3,000
Capital Assets being depreciated:				
Computer Equipment	21,276	3,314	-	24,590
Building	63,258	339	-	63,597
Furniture and Fixtures	5,211	7,545	-	12,756
Total Capital Assets	92,745	11,198	-	103,943
Less Accumulated depreciation for:				
Computer Equipment	(11,880)	(4,205)	-	(16,085)
Building	(41,470)	(3,327)	-	(44,797)
Furniture and Fixtures	(1,238)	(1,095)	-	(2,333)
Total Accumulated Depreciation	(54,588)	(8,627)	-	(63,215)
Capital Assets, Net	\$ 38,157	\$ 2,571	\$-	\$ 40,728

**NOTE 4 – EMPLOYEE RETIREMENT SYSTEM AND PLAN**

The Corporation's defined benefit pension plan, West Virginia Public Employees Retirement System (the PERS Plan), provides pensions for all participating employees of the Corporation. The PERS Plan is a statewide, cost-sharing, multiple-employer, defined benefit retirement plan for public employees, established on July 1, 1961. All employees of the State of West Virginia and of any political subdivision whose governing body elects to participate are required (with certain exceptions) to become members. The PERS Plan is managed by a Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, and Secretary of the Department of Administration, together with the following gubernatorial appointments that are subject to the advice and consent of the State Senate: four residents of the State who are not participants in the retirement plans, one State and one non-State employee participant in PERS, and one participant each from TRS, SPDDRS, SPRS, DSRS, EMSRS, MPFRS, AND TDCRS.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 4 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (Continued)**

Participants in the PERS Plan who retire at age 60 with at least five years of credited service or at least age 55 with their age plus service equal to 80 or greater are entitled to a retirement benefit, payable monthly for life, equal to 2% of average salary multiplied by years of service. Average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their benefits at age 62. The PERS Plan also provides death and disability benefits.

Employees covered by benefit terms.

At June 30, 2015, the following employees were covered by the benefit terms:

Active employees	4
------------------	---

Contribution rates for the PERS Plan are subject to Chapter 5, Article 10 of the West Virginia State Code. For the year ended June 30, 2014, active members contributed 4.5 percent of their salary, and employers contributed 14.5 percent of the member's compensation into the plan. For the year ended June 30, 2015, active members contributed 4.5 percent of their salary, and employers contributed 14.0 percent of the member's compensation into the plan.

Ten-year historical trend information relating to the accumulation of assets and the unfunded liability is available from the Consolidated Retirement Board.

**Net Pension Liability**

The Corporation's net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions.

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2 percent
Salary increases	4.25-6.0 percent, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation

PUBLIC DEFENDER CORPORATION  
 FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 4 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (Continued)**

Mortality rates for non-disabled participants were based on the 1983 Group Annuity Mortality Table for males and the 1971 Group Annuity Mortality Table for Females, as appropriate. Mortality rates for disabled participants were based on the 1983 Group Annuity Mortality Table for Males and Revenue ruling 96-7 for Females.

The actuarial assumptions used in the June 14 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Cash/Cash Equivalents	0.29%	0.0%
Domestic Equity	6.88%	7.6%
International Equity	44.43%	8.5%
Fixed Income Securities	39.21%	2.9%
Real Estate	9.19%	6.8%
Total	<u>100.00%</u>	

Discount rate.

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
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**NOTE 4 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (Continued)**

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2013	\$924,876	\$782,243	\$142,633
Service Cost	20,731	-	20,731
Interest Cost	68,791	-	68,791
Differences in expected and actual experience	2,568	-	2,568
Contributions – Employer		30,467	(30,467)
Contributions – Employee		9,528	(9,528)
Net Investment Income		135,185	(135,185)
Benefits Paid	(57,839)	(55,313)	(2,526)
Expenses (Administrative)	-	(735)	735
Other Changes	-	8	(8)
Net changes	34,251	119,140	(84,889)
Balances at June 30, 2014	\$959,127	\$901,383	\$57,744

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.5 percent, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 – percentage-point lower (6.5 percent) or 1 – percentage point higher (8.5 percent) than the current rate:

	1% Decrease 6.5%	Current Interest Rate 7.5%	1% Increase 8.5%
Total Pension Liability 6/30/14	1,064,548	959,127	869,299
Net Fiduciary Position	901,383	901,383	901,383
Net Pension Liability	163,165	57,744	(32,084)
Funded %	84.67%	93.98%	103.69%

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued West Virginia Consolidated Public Retirement Board Comprehensive Annual Financial Report.



PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 – LONG TERM LIABILITIES**

The following is a summary of long term obligation transactions for the Corporation for the years ended June 30, 2015 and 2014:

	2015				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long term liabilities:					
Other post-employment benefit liability	\$ 121,300	\$11,199	\$ -	\$ 132,499	\$ -
Net Pension Liability	142,634	-	84,890	57,744	-
Compensated absences	<u>14,015</u>	<u>-</u>	<u>4,231</u>	<u>9,784</u>	<u>9,784</u>
Total long term liabilities	<u>\$ 277,949</u>	<u>\$11,199</u>	<u>\$89,121</u>	<u>\$ 200,027</u>	<u>\$9,784</u>

	2014				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long term liabilities:					
Other post-employment benefit liability	\$ 117,634	\$3,760	\$ 94	\$ 121,300	\$ -
Net Pension Liability	-	142,634	-	142,634	-
Compensated absences	<u>15,019</u>	<u>3,278</u>	<u>4,282</u>	<u>14,015</u>	<u>14,015</u>
Total long term liabilities	<u>\$ 132,653</u>	<u>\$149,672</u>	<u>\$4,376</u>	<u>\$ 277,949</u>	<u>\$14,015</u>

**NOTE 7 – CONTINGENCIES**

The Corporation is on a reimbursement plan with the State of West Virginia, WorkforceWV, 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.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2015 AND 2014

**NOTE 7 – CONTINGENCIES (Continued)**

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 8 - CASH HELD AT FISCAL YEAR END**

At June 30, 2015 and 2014, the Corporation held cash and cash equivalents of \$88,692 and \$112,072, 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 budget necessary to fund the Corporation's normal operating activities.

**NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2015, the Corporation has implemented the following:

GASB Statement No. 68 "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27" requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The implementation of this statement did not impact the 2014 beginning net position of the Corporation.

**NOTE 10 – SUBSEQUENT EVENTS**

The Corporation has evaluated subsequent events and transactions for potential recognition or disclosure through December 28, 2015, the date the financial statements were available to be issued.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2015
<b>Total pension liability</b>	
Service cost	\$ 20,731
Interest	68,791
Changes of benefit terms	-
Differences between expected and actual experience	2,568
Changes of Assumptions	-
Benefit payments, including refunds of member contributions	(57,839)
<b>Net change in total pension liability</b>	<b>34,251</b>
<b>Total pension liability – beginning</b>	<b>924,876</b>
<b>Total pension liability – ending (a)</b>	<b>\$959,127</b>
Plan fiduciary net position	
Contributions – employer	\$ 30,467
Contributions – member	9,528
Net investment income	135,185
Benefit payments, including refunds of member contributions	(55,313)
Administrative expense	(735)
Other	8
<b>Net change in fiduciary plan net position</b>	<b>119,140</b>
<b>Plan fiduciary net position – beginning</b>	<b>782,243</b>
<b>Plan fiduciary net position – ending (b)</b>	<b>901,383</b>
<b>Net pension liability (asset) – ending (a) – (b)</b>	<b>\$ 57,744</b>
Plan fiduciary net position as a percentage of the total pension liability	93.98%
Covered-employee payroll	\$217,456
Net pension liability (asset) as a percentage of covered-employee payroll	26.55%

See Independent Auditor's Report and Notes to the Required Supplementary Information.

PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CORPORATION CONTRIBUTIONS

	<u>2015</u>
Actuarially determined contribution	\$ 30,467
Contributions in relation to the actuarially determined contribution	<u>29,867</u>
<b>Contribution deficiency (excess)</b>	<u><u>\$ 600</u></u>
Covered-employee payroll	\$217,456
Contributions as a percentage of covered-employee payroll	14.01%

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**PUBLIC DEFENDER CORPORATION  
FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE A – PENSION DATA**

Valuation date

Actuarially determined contribution rates are calculated as of June 30, twelve months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

- a. Actuarial cost method: Entry age normal cost
- b. Amortization method: Level percentage of payroll, closed
- c. Remaining amortization period: 4.27 years
- d. Asset valuation method: Fair Value of Assets as of the measurement date
- e. Inflation: 2.2%
- f. Salary Increases: 4.25-6.0%, including inflation
- g. Investment rate of return: 7.5%, net of plan investment expense, including inflation
- h. Retirement age: 25% for ages 55 and 65; 15% for ages 56 – 61; 30% for age 62; 18% for ages 63 and 64; 20% for ages 66 – 69; and 100% at 70.
- i. Mortality: For non-disabled participants, mortality is based on the 1983 Group Annuity Mortality Table for Males and the 1971 Group Annuity Mortality Table for Females, as appropriate. Mortality rates for disabled participants were based on the 1983 Group Annuity Mortality Table for Males and Revenue ruling 96-7 for Females



## 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

Public Defender Corporation  
for the Twenty-Eighth Judicial Circuit  
723 Main Street  
Summersville, West Virginia 26651

To the Board of Directors:

Our report on our audit of the basic financial statements of the Public Defender Corporation for the Twenty-Eighth Judicial Circuit for the year ended June 30, 2015 appears on pages 1 through 3. 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.  
Huntington, West Virginia  
December 28, 2015

PUBLIC DEFENDER CORPORATION  
 FOR THE TWENTY-EIGHTH JUDICIAL CIRCUIT  
 SCHEDULE OF BUDGET TO ACTUAL EXPENSES - CASH BASIS  
 YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	Under/(Over) Budget to <u>Actual</u>
Personal services	\$ 215,442	\$ 215,408	\$ 34
Employee benefits	79,648	73,854	5,794
Support services	8,550	8,322	228
Administrative services	5,350	5,235	115
Office	19,120	18,277	843
Acquisitions	<u>3,700</u>	<u>3,536</u>	<u>164</u>
 Total	 <u>\$ 331,810</u>	 <u>\$ 324,632</u>	 <u>\$ 7,178</u>



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

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

Public Defender Corporation  
for the Twenty-Eighth Judicial Circuit  
723 Main Street  
Summersville, West Virginia 26651

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Public Defender Corporation for the Twenty-Eighth Judicial Circuit (the "Corporation"), a component unit of the State of West Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated December 28, 2015, wherein we noted the Corporation adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*.

#### Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Corporation's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Corporation's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **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, opining 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.

### **Purpose of this Report**

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed under Government Auditing Standards in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Huntington, West Virginia  
December 28, 2015