

# SCHAFFER GROUP, LTD.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA**

**FINANCIAL STATEMENTS  
(AUDIT REPORT)**

**YEAR ENDED JUNE 30, 2012**

**CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY COMPANY**

**CAPITAL DEFENSE FUND OF SOUTHEAST LOUISIANA**  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Capital Defense Project of Southeast Louisiana  
New Orleans, LA

We have audited the accompanying statement of financial position of Capital Defense Project of Southeast Louisiana (a Louisiana Not-For-Profit Corporation) as of June 30, 2012 and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United State of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Defense Project of Southeast Louisiana as of June 30, 2012 and the changes in its net assets and its cash flows for the year 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 October 8, 2012 on our consideration of Capital Defense Project of Southeast Louisiana internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Schafer Group, LTD., LLC



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Kernion T. Schafer, CPA  
Managing Member

October 8, 2012

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2012**

ASSETS

Current Assets

Cash	\$	106,021
Certificates of Deposit		831,156
Reimbursements Receivable		19,012
Prepaid Expense		<u>5,391</u>

Total Current Assets		<u>961,580</u>
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Property and Equipment

Equipment		101,966
Furniture and Fixtures		48,881
Leasehold Improvements		<u>37,178</u>
Total Property and Equipment		188,025
Less: Accumulated Depreciation		<u>(73,417)</u>

Property and Equipment - Net		<u>114,608</u>
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Other Assets

Deposit		<u>6,491</u>
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Total Other Assets		<u>6,491</u>
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TOTAL ASSETS	\$	<u>1,082,679</u>
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See Independent Auditors' Report and Notes to the Financial Statements.

SCHAFFER GROUP, LTD.  
CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY COMPANY

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2012**

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>	
Accounts Payable	\$ 7,173
Payroll Liabilities	<u>1,875</u>
Total Current Liabilities	<u>9,048</u>
Total Liabilities	<u>9,048</u>
<u>Net Assets</u>	
Unrestricted	<u>1,073,631</u>
Total Net Assets	<u>1,073,631</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,082,679</u>

See Independent Auditors' Report and Notes to the Financial Statements.

SCHAFFER GROUP, LTD.  
CERTIFIED PUBLIC ACCOUNTANTS  
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**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

<u>Revenue</u>	
Contract Revenue	\$ 1,491,458
Expert Expenditure Reimbursement	36,465
Interest Income	10,187
Rental Income	<u>26,160</u>
Total Revenue	1,564,270
 <u>Expenses</u>	
Program Service	1,276,695
Management and General	<u>316,393</u>
Total Expenses	<u>1,593,088</u>
Income from Operations	<u>(28,818)</u>
 <u>Other Income (Expenses)</u>	
Loss on Disposal of Assets	<u>(921)</u>
Total Other Income (Expenses)	<u>(921)</u>
Change in Net Assets	<u>\$ (29,739)</u>
Net Assets, Beginning of Year	<u>1,103,370</u>
Net Assets, End of Year	<u>\$ 1,073,631</u>

See Independent Auditors' Report and Notes to the Financial Statements.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2012**

	Program Service	Management and General	Total
Accounting Expense	\$ -	\$ 15,243	\$ 15,243
Capital Representation	15,522	-	15,522
Contract Attorney	92,642	-	92,642
Contract Labor - Office	-	300	300
Depreciation	12,390	12,390	24,780
Dues, Seminars, and Subscriptions	12,080	-	12,080
Experts	6,877	-	6,877
Insurance	72,930	17,929	90,859
Investigators	17,131	-	17,131
Office Expense	7,085	7,085	14,170
Payroll and Payroll Taxes	843,085	175,041	1,018,126
Professional Fees	-	10,500	10,500
Reimbursable Expert Expenditures	36,465	-	36,465
Rent	50,082	50,081	100,163
Repairs and Maintenance	2,073	2,073	4,146
Simple IRA Contributions	58,750	13,500	72,250
Technical Support	5,498	5,498	10,996
Telephone	4,712	4,712	9,424
Travel	37,333	-	37,333
Miscellaneous	2,040	2,041	4,081
Total Expenses	<u>\$ 1,276,695</u>	<u>\$ 316,393</u>	<u>\$ 1,593,088</u>

See Independent Auditors' Report and Notes to the Financial Statements.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$	(29,739)
Non Cash Items Included in Increase (Decrease) in Net Assets:		
Depreciation		24,780
Loss on Disposal of Assets		921
Decrease (Increase) in Current Assets:		
Reimbursement Receivable		(4,799)
Prepaid Expense		(1,935)
Increase (Decrease) in Current Liabilities:		
Accounts Payable		524
Payroll Liabilities		367
		<u>367</u>
Net Cash Provided By (Used in) Operating Activities		<u>(9,881)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Assets	(27,228)
Increase in Certificates of Deposit	(9,454)
Proceeds From Sale of Fixed Assets	<u>245</u>
Net Cash (Used in) Investing Activities	<u>(36,437)</u>

Net Increase (Decrease) in Cash	(46,318)
Cash and Cash Equivalents, Beginning of Year	<u>152,339</u>
Cash and Cash Equivalents, End of Year	<u>\$ 106,021</u>

SUPPLEMENTAL DISCLOSURES ON  
CASH FLOW INFORMATION

Cash Paid During the Year For:

Interest	<u>\$ -</u>
Income Taxes	<u>\$ -</u>

See Independent Auditors' Report and Notes to the Financial Statements

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Capital Defense Project of Southeast Louisiana (Project) is a non-profit 501(c)(3) law office funded by the Louisiana Public Defender Board to provide services where there exists an ethical conflict of interest in the representation of indigent by the 22<sup>nd</sup> Judicial District Public Defender Office, in capital cases in Orleans Parish indicted after August 29, 2005, and throughout the State of Louisiana as needed.

B. Basis of Accounting

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

C. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification 958, Not-for-Profit Entities*. Under FASB ASC 958, the Project is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on the use of unrestricted net assets are the broad limits resulting from the following:

- The nature of the not-for-profit;
- The environment in which the not-for-profit operates;
- The purpose specified in the not-for-profit's articles of incorporation or bylaws; and
- Limits resulting from contractual agreements with suppliers, creditors, and others entered into by the not-for-profit in the course of its business.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the not-for-profit pursuant to those stipulations.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Permanently Restricted Net Assets – Net Assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the not-for-profit.

D. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

For the purpose of cash flows, the Project considers all unrestricted highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

F. Reimbursements Receivable

Reimbursements Receivable consists of reimbursements approved by the Louisiana Public Defender Board for expenditures incurred by June 30, 2012 that had not been received by the Project by year-end.

The Project considers all Reimbursements Receivables to be fully collectible. Accordingly, there was no allowance for doubtful accounts recorded.

G. Property and Equipment

Property and Equipment purchases are recorded and carried at cost. Depreciation is computed on the straight-line method over the following estimated useful lives:

Equipment	5 – 7 years
Furniture and Fixtures	7 years
Leasehold Improvements	10 years

Depreciation expense for the year ended June 30, 2012 was \$24,780.

It is the policy of the Project to capitalize all property and equipment with a useful life of five or more years.

The Project did not receive any donations of property and equipment during the year ended June 30, 2012.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

H. Income Tax Status

The Project is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. However, income from certain activities not directly related to the Project's tax-exempt purpose would be subject to taxation as unrelated business income.

The Company's federal and state tax returns are subject to possible examination by taxing authorities generally for a period of three years from the filing of those returns.

Note 2. CONTRACT REVENUE

Contract revenue is comprised of funds received under a contract with the Louisiana Public Defender Board. Contract revenue is recorded over the period covered by the original contract. Any amendments to the contract are recorded in the period received. Contract Revenue is reported as an increase in unrestricted net assets since the use of the funds outlined by the Louisiana Public Defender Board pertains to the primary purpose of the Project specified in the Project's Articles of Incorporation. See Note 1C.

The contracts for the year ended June 30, 2012 provided \$1,491,458 to the Project. Therefore, total contract revenue for the year ended June 30, 2012 was \$1,491,458.

Note 3. RESTRICTIONS ON NET ASSETS

Net assets consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Net Assets, Beginning of Year	\$ 1,103,370	\$ -	\$ -
Change in Net Assets	(29,739)	-	-
Net Assets, End of Year	<u>\$ 1,073,631</u>	<u>\$ -</u>	<u>\$ -</u>

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Note 4.            CONCENTRATIONS OF CREDIT RISK

At times throughout the year, the Project's interest-bearing, cash accounts and certificates of deposit held at its financial institution exceeded federally insured limits. All deposits owned by the Project at the same financial institution are combined and insured up to \$250,000 by the Federal Deposit Insurance Corporation. All cash and certificates of deposit of the Project are held at one financial institution. At June 30, 2012, \$687,177 of cash and certificates of deposit was uninsured.

All contract revenue for the year ended June 30, 2012 was from the Louisiana Public Defender Board.

At June 30, 2012, all reimbursements receivable were due from the Louisiana Public Defender Board.

Note 5.            LEASES

The Project leases office space from an unrelated party. Rent expense for the year ended June 30, 2012 was \$100,163. The lease expires November 30, 2016. Future minimum lease payments are as follows:

<u>Year Ending June 30:</u>	
2013	\$ 100,163
2014	109,511
2015	116,189
2016	48,412
2017	-

Note 6.            SIMPLE IRA

The Project offers a Simple IRA to its employees after one year of employment. The Project contributes 10% of an employee's annual salary. Contributions for the year ended June 30, 2012 was \$72,250.

Note 7.            COMPENSATED ABSENCES

The full-time employees of the Project are entitled to paid vacation and sick leave. However, any unused vacation or sick leave cannot be used in subsequent years. Therefore, an accrual of unused vacation and sick leave has not been recorded.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

Note 8.      SUBSEQUENT EVENTS

Management evaluated subsequent events through October 8, 2012, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

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

To the Board of Directors of  
Capital Defense Project of Southeast Louisiana  
New Orleans, LA

We have audited the financial statements of Capital Defense Project of Southeast Louisiana as of and for the year ended June 30, 2012, and have issued our report thereon dated October 8, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Capital Defense Project of Southeast Louisiana'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 expressing an opinion on the effectiveness of the Capital Defense Project of Southeast Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Capital Defense Project of Southeast Louisiana'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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Defense Project of Southeast Louisiana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses.

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

Schafer Group, LTD., LLC



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Kernion T. Schafer, CPA  
Managing Member

October 8, 2012

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

We have audited the financial statements of Capital Defense Project of Southeast Louisiana as of and for the year ended June 30, 2012, and have issued our report thereon dated October 8, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2012, resulted in an unqualified opinion.

**Section I - Summary of Auditor's Reports**

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses  Yes  No      Significant Deficiencies  Yes  No

Compliance

Compliance Material to Financial Statements  Yes  No

b. Federal Awards  Not Applicable

Internal Control

Material Weaknesses  Yes  No      Significant Deficiencies  Yes  No

Type of Opinion On Compliance for Major Programs

Unqualified       Qualified       Disclaimer       Adverse

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?

Yes       No

Was a management letter issued?  Yes  No

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

c. Identification of Major Programs:  Not Applicable

CFDA Number (s)

Name of Federal Program (or Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$ \_\_\_\_\_

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133?  Yes  No

**Section II – Financial Statement Findings**

2012-1 Timesheets - Non Compliance

*Criteria:* The "Contract for Criminal Defense Services on Behalf of Indigents Accused of Capital Crimes" between the Louisiana Public Defender Board (LPDB) and the Capital Defense Project of Southeast Louisiana (Project) covering July 1, 2011 through December 31, 2011 and January 1, 2012 through June 30, 2012 required all Project personnel (independent contractors and employees) to keep timesheets.

*Condition:* Administrative personnel did not keep timesheets as required by the Louisiana Public Defender Board contract.

*Cause:* Management of the Project did not know that administrative personnel were required to keep timesheets.

*Effect:* Noncompliance with the Contract requirement referenced above.

*Recommendation:* The Capital Defense Project of Southeast Louisiana should have administrative personnel keep timesheets.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

Management's Response

Subsequent to the year ended June 30, 2012, management determined that all personnel, including administrative staff, should keep timesheets. As such, effective October 15, 2012, the administrative staff of Capital Defense Project of Southeast Louisiana began keeping timesheets.

**Section III – Federal Award Findings and Questioned Costs**

No Section III Findings.

**CAPITAL DEFENSE PROJECT OF SOUTHEAST LOUISIANA  
SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2012**

**SECTION I  
INTERNAL CONTROL AND COMPLIANCE MATERIAL  
TO THE FINANCIAL STATEMENTS**

2011-1    Professional Liability Insurance - Non Compliance

Not all professional employees maintained professional liability insurance as required by the Louisiana Public Defender Board contract. The Capital Defense Project of Southeast Louisiana should maintain or ensure that all professional employees maintain professional liability insurance.

*Current Year Status:* Resolved.

**SECTION II  
INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS**

Not applicable.

**SECTION III  
MANAGEMENT LETTER**

Not applicable.

THIS SCHEDULE HAS BEEN PREPARED BY MANAGEMENT.