Justice at Work

Presented by C. Logan Robertson and Joe Ludlow

January 6, 2020

Kevin P. Martin & Associates,

ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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Section One - Our Engagement Team

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Section Two - Required Communication with Those Charged with Governance

Responsibility under U.S. Generally Accepted Auditing Standards

- Plan and perform our audit to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement.
- Not a detailed examination of all transactions, there is risk that material errors, fraud or other illegal acts may exist and not be detected by us.
- Understanding of internal controls sufficient to enable us to plan and perform the audit but not to render an opinion on internal controls.

Section Two - Required Communication with Those Charged with Governance - Continued

Responsibility for other information in documents containing audited financial statements

Public Charities Form

Changes in significant accounting policies

Adoption of ASU 2018-08

Accounting policies are included in Note 1 to the financial statements

Management judgments and accounting estimates

Allowance for doubtful accounts

Depreciable lives of property and equipment

Accruals

Section Two - Required Communication with Those Charged with Governance - Continued

Corrected or uncorrected misstatements

There was one proposed audit adjusting journal entry

Disagreements with management

No matters noted.

Difficulties encountered in performing the audit

Auditors received the full cooperation of management during the audit process.

Section Two - Required Communication with Those Charged with Governance - Continued

Consultation with other independent auditors

No instances of consultations with other accountants identified.

Major issues discussed with management prior to our retention

No matters noted.

Other matters

None

Certain written communications between management and our firm

We will request certain representations from management in our standard management representation letter.

Client: ***63154.0 - Justice at Work, Inc.***
Engagement: ***Audit - Justice at Work, Inc.***
Period Ending: ***6/30/2020***
Trial Balance: ***3000.00 - TB***
Workpaper: ***3400.02 - Adjusting Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		**5100.10**		
To record payroll accrual for FY20.				
6403	Personnel:Salary Expense		12,293.00	
6426	Personnel:Benefits		354.00	
6439	Personnel:Payroll Taxes		1,033.00	
2100	Accrued Leave and Payroll			13,680.00
Total			**13,680.00**	**13,680.00**

Section Three – Key Ratios and Trends

(SEE ATTACHMENT)

Justice at Work, Inc.

Ratios

	2020	2019
Current Ratio (current assets over current liabilities)	6.6	34.9
Days Cash on Hand (number of days of average operating expenses in cash - in-kind backed out)	448	300
Days in Trade Receivables (program service fees divided by accounts receivable)	10	101
Administrative Rate (administrative costs over total expenses)	8%	10%
Fundraising Rate (fundraising costs over total expenses)	12%	20%
Program Rate (program costs over total expenses)	80%	69%
Cost to Raise a Dollar (fundraising costs over total contribution and grant revenue excluding in-kind)	$ 0.15	$ 0.27

Section Four – Draft Financial Statements

(SEE ATTACHMENT)

Accounting for Leases (ASU 2016-02)

- Recognition of lease assets and liabilities (i.e. on the statement of financial position)
- The lessee recognizes a Right of Use (ROU) asset and liability for lease contracts (other than short-term leases)
- The ROU assets represents the lessee's right to use the leased asset for the lease term; the liability represents the lessee's obligation to make lease payments.
- **The effective date has been extended to fiscal years beginning after December 15, 2021 (July 1, 2022 for Justice at Work)**

Accounting for Revenue Recognition – Topic 606

- The revenue recognition standard affects all entities—public, private, and not-for-profit—that have contracts with customers, except for certain items, which include leases accounted for under FASB ASC 840, Leases; insurance contracts accounted for under FASB ASC 944, Financial Services—Insurance; most financial instruments, and guarantees (other than product or service warranties).
- The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition.
- Effective for annual reporting periods beginning after December 15, 2020, (July 1, 2020 for Justice at Work).

Section Six – Recommendations

To Do for FY21

- Ensure all accruals, such as the payroll accrual, are recorded at year end
- Only one check signer is required for all amounts. Best practice is to have amounts over a certain threshold require a second signature. Consider implementing a solution such as Bill.com which allows for electronic approval of items for payment and if they exceed a certain amount, the item is automatically routed to another person, such as the board Treasurer, for approval
- There is no written cost allocation policy. The finance committee should work with management to develop a written policy that shows how various indirect costs will be allocated, both from a principal standpoint and a line-by-line detail that the bookkeeper can follow.

Section Seven – Pandemic Times

As the pandemic continues to disrupt businesses and operations we suggest to continue to closely monitor the following (not an all-inclusive list):

- Collectability of pledges/accounts receivable including revenue recognition
- Financial assets, potential impairments
- Liquidity risks and cash flows – financial forecasting

Section Seven – Pandemic Times

As the pandemic continues to disrupt businesses and operations we suggest to continue to closely monitor the following (not an all-inclusive list):

Funding:

- Availability of grants – (i.e. Miller Foundation, Barr Foundation, etc.)
- Availability of loans – (i.e. SBA, MA specific resources, etc.)

Donors:

- Work with donors to convert current restricted grants to unrestricted for general operating support
- Work with donors on reporting flexibility

Costs:

- Containment and identification of additional costs related to COVID-19
- Assessment of potential insurance coverage

Operational:

- Program delivery – alternative methods
- Keeping volunteers engaged
- Assessment of Business Continuity Plan
- Assessment of Disaster Recovery Plan

Section Seven – Pandemic Times

As the pandemic continues to disrupt businesses and operations we suggest to continue to closely monitor the following (not an all-inclusive list):

Technology

- Remote work place assessment including home security
- Reinforce policies to staff
- Risk if increased fraud and phishing schemes
- Cybersecurity
- Telecommunications training assessment including using software and online content support

PPP Loan:

- Understand the PPP Loan regulations including forgiveness calculation and timing
- Tracking and identification of use of PPP Funds
- Management to conclude as to eight or twenty-four week period
- Forgiveness Application and Support Documentation in place

Please visit KPM's COVID-19 Resource Center at https://kpm-us.com for additional information