

2020
Financial Statements
With
Auditor's Letters

GUARDIANSHIP AND TRUSTS CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2020

(With Independent Auditor's Report Thereon)

GUARDIANSHIP AND TRUSTS CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2020

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Guardianship and Trusts Corporation

We have audited the accompanying financial statements of Guardianship and Trusts Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guardianship and Trusts Corporation as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine

January 21, 2021

GUARDIANSHIP AND TRUSTS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets:

Cash and restricted cash	\$ 81,580	
Accounts receivable	39,119	
Total current assets		\$ 120,699

Property and equipment, net		553
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Other Assets:

Burial plots	60,695	
Security deposit	2,689	
Total other assets		63,384

Total assets		\$ 184,636
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Current Liabilities:

Accounts payable	\$ 3,750	
Current maturities of long-term debt	14,746	
Accrued expenses	13,565	
Deferred rent	3,976	
Total current liabilities		\$ 36,037

Long-Term Liabilities

Long-term debt, less current maturities	23,854	
		23,854

Net Assets:

Without donor restrictions	120,117	
With donor restrictions	4,628	

Total net assets		124,745
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Total liabilities and net assets		\$ 184,636
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See accompanying notes to the financial statements.

GUARDIANSHIP AND TRUSTS CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Institutional service fees	\$ 11,606	\$ -	\$ 11,606
Conservator and guardianship fees, net	144,745	-	144,745
Trustee fees	34,693	-	34,693
Contributions and grants	61,445	-	61,445
Other income	1,442	-	1,442
In-kind revenue	3,877	-	3,877
Net assets released from restrictions for specific purpose	3,172	(3,172)	-
Total support and revenues	260,980	(3,172)	257,808
Expenses:			
Fiduciary Activities	276,298	-	276,298
Management and General	46,921	-	46,921
Total expenses	323,219	-	323,219
Increase/(decrease) in net assets	(62,239)	(3,172)	(65,411)
Net assets - beginning of year	182,356	7,800	190,156
Net assets - end of year	\$ 120,117	\$ 4,628	\$ 124,745

See accompanying notes to the financial statements.

GUARDIANSHIP AND TRUSTS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Fiduciary Activities</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 172,614	\$ 30,461	\$ 203,075
Payroll taxes and benefits	24,779	4,373	29,152
	<hr/>	<hr/>	<hr/>
Total personnel costs	197,393	34,834	232,227
Depreciation	241	42	283
Dues and subscriptions	1,377	-	1,377
Education and training	2,053	-	2,053
Equipment rental and maintenance	192	34	226
In-kind expense	3,489	388	3,877
Insurance	15,025	2,651	17,676
Interest	462	82	544
Licenses and permits	71	13	84
Miscellaneous	301	61	362
Office supplies	3,821	425	4,246
Professional services	4,500	3,000	7,500
Rent	40,412	4,617	45,029
Tech support	2,552	284	2,836
Telephone	4,409	490	4,899
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 276,298</u>	<u>\$ 46,921</u>	<u>\$ 323,219</u>

See accompanying notes to the financial statements.

GUARDIANSHIP AND TRUSTS CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities:

Decrease in net assets	\$	(65,411)
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Adjustments to reconcile increase in net assets
to cash provided by operating activities

Depreciation	\$	283	
Changes in:			
Accounts receivable		29,239	
Prepaid expenses		4,838	
Accrued expenses		1,182	
Deferred rent		(1,145)	
Total adjustments		34,397	
Net cash used in operating activities		(31,014)	

Cash Flows from Financing Activities:

Issuance of long-term debt		38,600
Net cash provided by financing activities		38,600

Net increase in cash		7,586
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Cash and restricted cash - beginning of year		73,994
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Cash and restricted cash - end of year	\$	81,580
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SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the year ended June 30, 2020, was \$544.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The terms "we", "our", and "us" are also used throughout these notes to the financial statements to identify the Guardianship and Trusts Corporation ("GTC"). We were incorporated under the laws of the State of Tennessee as a nonprofit organization in December 1980. In March 1983, we were issued a Certificate of Authority by the Tennessee Department of Banking to provide limited trust services. We were formed to provide financial, social advisory, and other fiduciary services to persons with intellectual disabilities. Our services are provided in the capacity of trustee, guardian, conservator, and/or attorney-in-fact primarily in the Middle Tennessee area.

Program Services

The following program service is included in the accompanying financial statements:

Fiduciary Activities – We provide conservatorship, guardianship, attorney-in-fact, and trustee services to persons with intellectual and other impairments who are unable to make informed and rational decisions and who are without family members or others who are able and willing to assist. The goal is to provide a reliable continuity to maximize resources and quality of life for our clients.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as net assets without donor restrictions.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue Recognition

We recognize grants and other contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions which are met in the same year in which the contributions are received are classified as contributions without restrictions.

Conservator and Guardianship Fees

We recognize fees when billed or when a motion for such fees is made to the supervising court, or an award of fees from the supervising court is made, discounted by any amounts management believes may be uncollectible. In accordance with nonprofit Generally Accepted Accounting Principles (GAAP) the revenue for conservator and guardianship fees are reported net of these discounts on the Statement of Activities.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributed Goods and Services

Contributions of donated noncash assets are recorded at their fair value in the period received. Contributions of donated services which create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, we consider all investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2020, there were no cash equivalents.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the Statement of Financial Position.

Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and utilities which are allocated on a square footage basis. Salaries and wages, benefits, payroll taxes, and professional services are allocated on the basis of time utilization. Office expenses, supplies and information technology as well as insurance is allocated based on usage.

Advertising

Advertising is expensed as incurred. For the year ended June 30, 2020, we had no advertising cost.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The fair values of current assets, current liabilities, and restricted cash approximate to the carrying values due to the short maturities of these instruments and they are all Level 1 in the fair value hierarchy.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. Our capitalization policy is to capitalize any expenditure over \$500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. At June 30, 2020, no assets were considered to be impaired.

Property and equipment donated with explicit restrictions regarding their use and contributions of cash which must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long the donated assets must be maintained, we report expirations of donor restrictions when the donated or acquired assets are placed in service and also reclassify the temporarily restricted net assets to unrestricted net assets concurrently.

New Accounting Pronouncement

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified on the statements of financial position and cash flows. The statements of financial position and cash flows have been presented to reflect this Accounting Standards Update at June 30, 2020, and certain reclassifications of prior year summarized amounts have been made to conform to the current year presentation.

The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This Update requires entities to make new judgements and estimates and provide expanded disclosures about revenue. The second, Accounting Standards Update No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. We have adopted these standards retrospectively during 2020. The adoption of this standard had no effect on beginning net assets on our statement of activities for the year ended June 30, 2020.

NOTE 2 - Availability and Liquidity

Financial assets available for general expenditure within one year of the statement of financial position, consist of the following:

Financial assets for the year ended

Cash	\$ 71,539
Accounts receivable, net	<u>39,119</u>
	<u>\$ 110,658</u>

The Organization has certain board-designated assets limited to use, which are available for general expenditure within one year in the normal course of operations in the amount of \$5,413. Accordingly, these assets have been included in the qualitative information above. The Organization also has certain donor-restricted assets limited to use which are only available for restricted programs. Accordingly, these assets, in the amount of \$4,628, have been excluded from the qualitative information above, see Note 7.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - Availability and Liquidity (continued)

In the next fiscal year, we plan to receive the same level of income from contributions and consider this income for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. Cash is currently held in multiple bank accounts including a money market account to generate interest.

This cash is considered readily available. We manage our liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures.

NOTE 3 - Accounts Receivable

A summary of the accounts receivable held at June 30, 2020, is as follows:

Trust fees	\$ 14,642
Contract fees	6,301
Guardianship fees	<u>18,176</u>
	<u>\$ 39,119</u>

Discounts are netted against revenue at the time of service based on historical experience and our evaluation of accounts.

NOTE 4 - Property and Equipment, net

Property and equipment, net consisted of the following at June 30, 2020:

Equipment	\$ 15,795
Furniture	<u>10,467</u>
	26,262
Less: accumulated depreciation	<u>(25,709)</u>
	<u>\$ 553</u>

NOTE 5 - Burial Plots

We own burial plots at a local cemetery. These plots have a carrying value based on the fair value on the date of contribution, but are not re-measured at fair value annually in accordance with generally accepted accounting principles. The value of the plots was established by the cemetery where they are located when contributed. As of June 30, 2020, the carrying value of the plots were \$60,695. We are not aware of any effects on the value of the plots and we believe they are not considered to be impaired.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 - Accrued Expenses

At June 30, 2020, expenses were accrued for the following:

Accrued vacation	\$ 6,359
Accrued wages payable	<u>7,206</u>
	<u>\$ 13,565</u>

NOTE 7 - Net Assets

At June 30, 2020, we held assets whose use was designated by the board for the following purpose:

PH Fund	<u>\$ 5,413</u>
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At June 30, 2020, we held assets whose use was restricted by donors or grantors as follows:

Grant Cash – Minimum Balance	\$ 50
GTC Grant Fund	<u>4,578</u>
	<u>\$ 4,628</u>

NOTE 8 - Leases

We lease certain equipment under leases classified as operating leases. Total rent expense under the leases for the year ended June 30, 2020, was \$45,029.

The following is a schedule of future minimum lease payments under the non-cancellable operating leases as of June 30, 2020:

Year Ending June 30,

2021	\$ 44,840
2022	44,840
2023	<u>22,981</u>
	<u>\$ 112,661</u>

NOTE 9 - Retirement Plan

We adopted a 401(k) retirement plan on January 1, 2002, and it was amended on January 1, 2011. The plan allows eligible employees to defer up to 25% of their annual compensation, pursuant to Section 401(k) of the Internal Revenue Code. We match 25% of employee contributions up to a maximum of 4% of the employee's salary. Employees must be full time and be at least 21 years of age to participate, and must exceed 500 hours of service to avoid a break in eligibility. Once the employee has completed two years of service, all matching contributions are 100% vested. Employer match expenses incurred by us during the year ended June 30, 2020, were \$2,003.

GUARDIANSHIP AND TRUSTS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10 - Donated Services

We recognize contribution revenue for certain services received at their fair value. Those services include donated professional attorney and trustee services used in our program services and amounted to \$3,877 for the year ended June 30, 2020. These amounts are reported as in-kind revenue on the Statement of Activities and in-kind expense on the Statement of Functional Expenses.

NOTE 11 - Concentration

At June 30, 2020, 74% of accounts receivable were due from three clients.

NOTE 12 - Related Party Management of Fiduciary Accounts

We serve as the trustee of individual trust accounts, pooled trust accounts, and as the court appointed conservator or guardian of individual ward's assets by court appointment. As a corporate fiduciary chartered by the State of Tennessee, we are subject to regular examination of the Tennessee Department of Financial Institutions in regard to our management of fiduciary accounts.

When serving as a court appointed fiduciary or guardian, we are subject to continued court supervision of the management and investment of client's assets. This includes the filing of an annual accounting report unless specifically waived by the court. Assets held in a fiduciary capacity totaled \$20,610,101 for the year ending June 30, 2020. These amounts are not considered part of our financial statements and are not included in this audit of our accounts.

NOTE 13 - New Pronouncements

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2020, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2020. We are currently evaluating the impact of adopting this statement.

In February 2016, the FASB amended the Leases topic of Accounting Standards Codification to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the statement of operations and retained earnings. The amendments will be effective for us for the year beginning after December 15, 2021. We are currently evaluating the impact of adopting this guidance on the financial statements.

NOTE 14 - Subsequent Events

We have evaluated events subsequent to the year ended June 30, 2020. As of January 21, 2021, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

January 21, 2021

To the Board of Directors
Guardianship and Trusts Corporation

We have audited the financial statements of Guardianship and Trusts Corporation for the year ended June 30, 2020, and we will issue our report thereon dated January 21, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Guardianship and Trusts Corporation are described in Note 1 to the financial statements. As described in Note 1, the Organization changed accounting policies related to revenue recognition and cash flows by adopting FASB Accounting Standards Updates (ASU) No. 2014-19, *Revenue from Contracts with Customers*, 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash* in 2020. Accordingly, the accounting changes have been retrospectively applied to prior periods presented as if these policies had always been.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the functional expense allocations is based on management's review of expense account activity and the estimate for functional classification. We evaluated the key factors and assumptions used to develop the functional expense allocations in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the allocation of functional expenses in Note 1 to the financial statements explaining the basis of allocation of functional expenses into their appropriate functional categories.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

While we did not have difficulties dealing with management, we did encounter significant delays in the audit due to the Organization keeping dual accounting systems during a transitional period. The two systems had not been reconciled to each other and we received the financial statements from one system and the reconciliations from the other. After additional work on behalf of management, the two systems were reconciled and the audit could be conducted.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were corrected by management: Net Assets, Accrued Vacation, Debt, Prepaid Expenses, In-Kind Revenue and Expenses, and Accounts Receivable.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Guardianship and Trusts Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Patterson Harder & Bellentine



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

January 21, 2021

To the Board of Directors of
Guardianship and Trusts Corporation

In planning and performing our audit of your financial statements for the year ended June 30, 2020, we became aware of several matters that are opportunities for strengthening operating effectiveness for Guardianship and Trusts Corporation (the "Organization"). In addition, we noted certain matters involving current accounting issues and other matters, both of which are presented here for your consideration.

This letter does not affect our report dated January 21, 2021, on the financial statements of Guardianship and Trusts Corporation. We will review the status of these comments during our next engagement. Our comments and recommendations are intended to improve your understanding of current events which could be affecting your Organization's accounting policies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Accounts Receivable Aging

During our audit, we noted that no aging of receivables is maintained. We recommend that an aged trial balance of accounts receivable be prepared each month. Any balance over ninety days old should be listed on a supplementary schedule with a complete explanation of the reason why the balance has not been collected. Balances which are past due should be monitored and perhaps collected before age makes collection impossible.

Preparation for New Accounting Standards

Revenue Recognition

The implementation of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* also aims to improve comparability across industries and markets, and requires disclosures for clarity and understanding. While this standard is not effective until the annual period beginning after December 15, 2020 it is required that it be applied retrospectively. Therefore you need to apply the criteria for your 2020 fiscal year. We recommend that management begin to apply the core principle of the standard by documenting the Organization's revenue streams and going through the steps below to determine when revenue should be recognized. Please document for your or your 2021 fiscal year the following items. We will be asking you for your analysis of these items before we begin your next engagement. We are happy to review these items during your next engagement to ensure you are ready to implement the standard.

- Identify the contract(s) with the customer
 - You need to make a list of all your sources of income.
- Identify the performance obligations
 - Please document what you have to do to get paid for each source of income.
- Determine the transaction price
 - This is the price of the contract. It could be one total price or a daily rate for a service or a series of payments. Please document this for each source of income.
- Allocate the transaction price
 - Please document if you get paid for each day of service or only when the project is complete. What's the unit price associated with each obligation you have? Document if you get paid in increments and what you have to do to get the incremental payment.
- Recognize revenue when (or as) a performance obligation is satisfied
 - Once you determine that you have fulfilled your obligation for each allocated price, you can record revenue for that element of the contract.

In addition, ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, aims to clarify revenue recognition standards for nonprofits. This update will assist organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance. This update will also assist in determining whether a contribution is conditional. This update should be applied on a modified prospective basis for annual periods beginning after December 15, 2018. Retrospective application is permitted. We recommend you go through the five steps described in ASU 2014-09 in order to have all revenue streams documented, which will aid in evaluating the effects of ASU 2018-08 and how the respective revenue streams will be recognized in the financial statements.

Leases

We recommend that management begin reviewing all leases engaged in by the Organization (as a lessor or lessee) to start preparing for reporting changes and disclosure requirements included in ASU 2016-02 *Leases (Topic 842)*, that will be effective for annual periods beginning after December 15, 2021. Under this new accounting standard, most leases will need to be recorded as a liability on your financial statements. You will also record an asset for the right to use the leased property.

Please contact us for additional information and guidance as you are going through the process of determining how these new standards will affect your organization.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Patterson Handley & Ballentine